

Public Utilities

FORTNIGHTLY



November 5, 1942

HOLDING COMPANY DISSOLUTION, PUBLIC
OWNERSHIP, AND WAR

By Fergus J. McDiarmid

« »

Employee Shifts during War

By James H. Collins

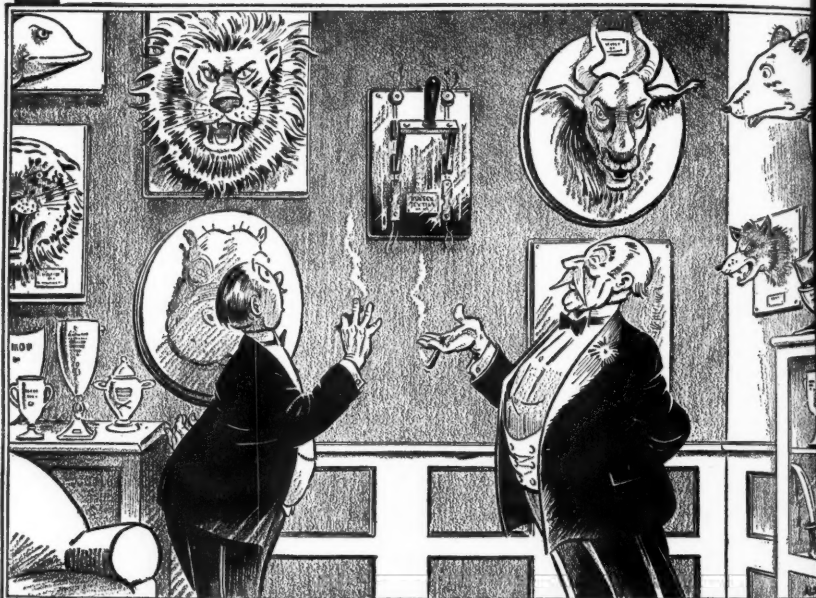
« »

Transportation Comes Through

By Andrew Barnes

PUBLIC UTILITIES REPORTS, INC.
PUBLISHERS

HIS PLEASURE WAS TAKING UNNECESSARY RISKS



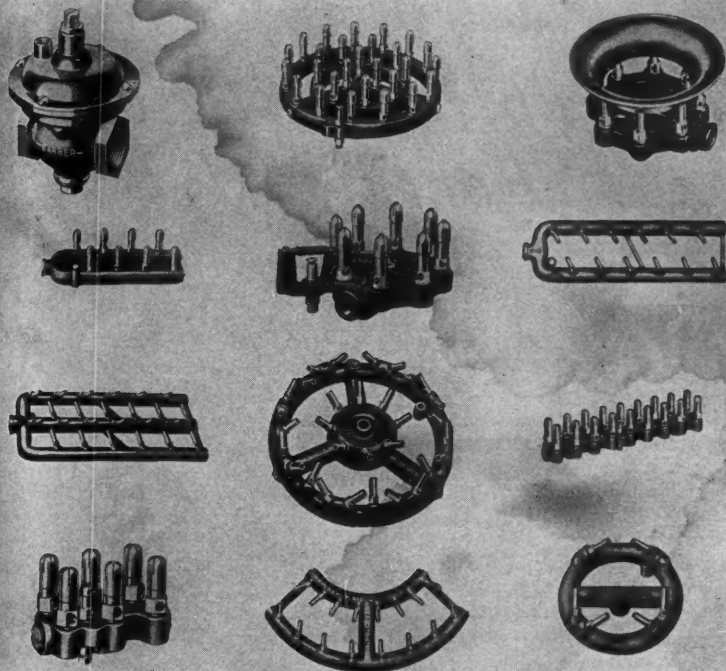
**"AND NOT A TROPHY UP THERE, OL' BOY, THAT
DIDN'T LEAVE ITS MARK! DID I EVER TELL YOU
HOW I LOST MY EYEBROWS AND MUSTACHE
AT THE OLD SUSSEX TEXTILE MILL?"**

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Public Utilities Fortnightly

VOLUME XXX

November 5, 1942

NUMBER 10

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Q This magazine is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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NOV. 5, 1942

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Pages with the Editors

THIS seems to be open season for some people to tell other people just what we are fighting for. Magazine editors, we are sorry to say, appear to be the most brash and bumptious of the lot. Last month, for example, we noticed that the editor of *Life* magazine gave a sound lecture to the English in an open letter which purported to represent 134,000,000 Americans. *Life* told the Englishman plenty; and even hinted that unless the Englishman paid more attention to what Americans were fighting for we might pull out on him.

THE *New Yorker* came right back and told *Life* plenty, accusing the latter's editors of making mischievous and irresponsible suggestions. While all this was going on, the grandfather of all American periodicals, *The Saturday Evening Post*, delivered itself of a solemn editorial on post-war aims which so impressed the Scripps-Howard chain editors that they reprinted it free of charge (in 14-point type with a few bouquets on the side) in all of their organs.

AFTER observing these important doings by our esteemed contemporaries, we are constrained to approach our editorial task in a

somewhat humble spirit. We cannot obviously profess to speak for the American people, nor even for the important utility industry readership which we try to serve. We don't know very specifically what the post-war objectives of the United States are or should be. We do know that there seems to be a heck of a lot of conflict of opinion among the authorities, such as *Life*, *The Nation*, *The Saturday Evening Post*, etc.

BUT we believe that it falls within our province to raise a few questions about the shape of things to come in a sort of where-do-we-go-from-here spirit. And since our contributors are generally better able to perform such a function than ourselves, we merely promise at this time that you are going to see a lot more articles in the *FORTNIGHTLY* in the future which deal with utilities in a post-war world. That is, if there are any utilities and if there is any world left after the strange case of Mr. Schickelgruber has been solved.

FOR example, we noted a speech the other day by J. B. Hill, president of the Louisville & Nashville Railroad Company, in which he observed that President Roosevelt had omitted "freedom of enterprise" from the four freedoms held up as post-war goals. Mr. Hill thought this was a serious omission and that we ought to do something about it. He suggested that it was a task principally calling for a better selling job to the American public.

WELL, that is one of the things we are going to look into, in developing articles for the critical months ahead. But what about the present problems—the scarcity of materials and man power, rationing, and financing? These certainly stand high on our agenda. You will be reading about them in these pages in the near future.

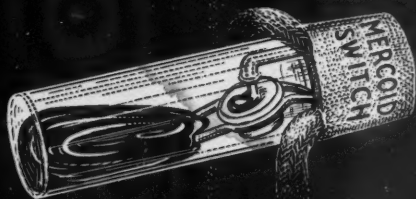
THE opening article in this issue is a pretty good starter along these lines, we think. FERGUS J. MCDIARMID, utility security analyst of the Lincoln National Life Insurance Company of Fort Wayne, Indiana, needs no introduction to most of our readers. What he has to say about the progress of public ownership under the influence of tax exemption during the war period should be an eye opener to anybody concerned with the continued welfare of the public utility industry.



FERGUS J. MCDIARMID

Is public ownership financing sapping the war effort?

(SEE PAGE 629)



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ALL this confusion about post-war objectives brings to mind the sad case of a certain Southern Senator who sat through the better part of a sizzling afternoon last August at a White House conference supposed to have something or other to do with *post bellum* planning. When he came out he was besieged by newspaper reporters who wanted to know (very briefly and in time for the late afternoon editions) just what we are supposed to be fighting for.

"DARNED if I know what we are supposed to be fighting for," the Senator said in a bewildered fashion as he mopped his bald head. "Harry Hopkins is fighting for one thing and Barney Baruch is fighting for just the opposite. As for me—well, right now I'd settle for a short beer."

ALSO in this issue (beginning page 650) we have another article by a Washington congressional correspondent, ANDREW BARNES, on transportation under war emergency conditions. This same war emergency has done a lot of painful things to the Great American Straphanger and his more recently arrived colleague, the Ex-Automobile Operator. But there are silver linings here and there if we look hard enough for them. For example, there is the "share-a-ride taxicab"—a 100 per cent emergency product which recently blossomed out in the nation's capital. By this time it may well have put in its appearance elsewhere. This blossom reaches its full bloom along about the morning rush hour at the Union Station.

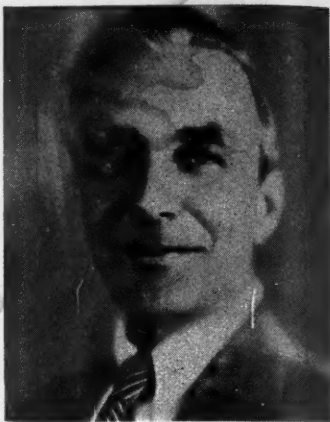
THE first man into a cab calls the destination; and after that it's every man for himself. He tries to get a cab which is going in the same general direction he wants to go. This isn't as difficult as it sounds, since the city of Washington has strangely developed into the shape of a rather fat ham which makes most of the traffic channel through the Northwest area.

MAY we refer once more to our esteemed contemporary, *The New Yorker*, which made the following brief report on the subject of the Washington share-a-ride taxicab:

"... Our scouts report that there seems to be one unexplained blonde in every cab, bringing to the whole sober transportation problem the chanciness and breeziness of the midway. (Last man to leave the cab gets the doll.) It is an odd kink in the tire situation. Civilization continues to be at best an elusive thing: in an attempt to save it we willingly share our cab seat with strangers, only to find that among them is an advocate of playfulness and chaos."

THE article entitled "Employee Shifts during War," beginning on page 641, is the product of that veteran business editor and

NOV. 5, 1942



JAMES H. COLLINS

War has put every essential business on a round-the-clock basis.

(SEE PAGE 641)

writer, JAMES H. COLLINS, who now resides in Hollywood, California.

AMONG the important decisions preprinted from *Public Utilities Reports* in the back of this number, may be found the following:

ACCOUNTING requirements were prescribed by the Federal Power Commission in an order determining the actual legitimate original cost of a federally licensed power project and requiring the transfer of disallowed amounts to earned surplus. (See page 129.)

GAS companies were recently upheld in restricting the furnishing of space or building heating service to new customers during the war emergency because of their inability to secure necessary material for extension of mains or placing of services and stringent regulations on delivery of oil used in the manufacture of gas. (See page 133.)

SIMPLIFICATION of a holding company system was recently approved by the Securities and Exchange Commission, which, in passing upon the plan, discussed capitalization and recapitalization involved in the plan, the refinancing of the surviving corporation, and ratios of securities to total capitalization and to properties and investment on various bases in connection with the plan. (See page 156.)

THE next number of this magazine will be out November 19th.

The Editors

TYPEWR
REM

UNTIL THERE'S VICTORY OVER THE AXIS, UTILITIES HAVE A DOUBLE CON- TRIBUTION TO MAKE...

▼ When Hitler, Hirohito & Co. have been put out of business, there will be more famous Remington Typewriters for Public Utilities in America. Right now Remingtons are needed elsewhere as a part of the United Nations striking force where men march, where tanks roll, where planes fly and where ships sail.

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Call our local branch and arrange for a Conservation Program, too. Your present useful typewriters have an extra job to do. Let the advice of the World's Largest Manufacturer of Typewriters be your guide to make 'em last for Victory.



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REMINGTON MODEL SEVENTEEN

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Chickasaw CHOOSSES



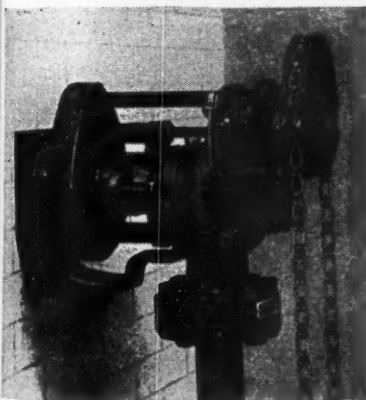
Vulcan provides clean heat transfer surfaces to the Combustion four-drum, bent-tube, 400,000 lb. per hr., pulverized coal-fired boiler which serves this new 40,000 kilowatt, 900 lb. per sq. in. Southern plant.

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Remember that whatever the characteristics of your boiler and setting, fuel, or load, Vulcan engineers will be glad to solve any soot blower installation and operating problem involved.



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Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE



ROBERT R. NATHAN
*Chairman, Planning Committee,
War Production Board.*

EDITORIAL STATEMENT
The Raleigh (N. C.) Times.

TOM CONNALLY
U. S. Senator from Texas.

GUY A. RICHARDSON
*Director, ODT Division of Local
Transport.*

RAYMOND MOLEY
*Writing in The Wall Street
Journal.*

CLAUDE R. WICKARD
Secretary of Agriculture.

FRANKLIN DELANO ROOSEVELT

FRANK KNOX
Secretary of the Navy.

JOSEPH B. EASTMAN
*Director, Office of Defense Trans-
portation.*

"We have learned that appropriations and dollars will not win the war."

"Add to things we can do without, even after the war—the singing telegram."

"I believe that we should have the Constitution republished as a public document so that it would be read."

"The transition from 'conversation' to 'conservation' must be completed, and the time is desperately short."

"At best the formula tying wage increases to a standard of living based on a certain date cannot, of itself, prevent inflation, whether it be announced in an administration decision or embodied into law."

"We must head off inflation. Second only to war production, that is our most important job here at home. . . . Runaway inflation would put sand in the gears of our whole war production program. It would lead to price collapse after the war."

"If the vicious spiral of inflation ever gets under way, the whole economic system will stagger. Prices and wages will go up so rapidly that the entire production program will be endangered. The cost of the war, paid by taxpayers, will jump beyond all present calculations."

"The man who sees dark conspiracies in every act of the government, who whispers or shouts that Washington is either overrun with businessmen working for their own interests or is a hotbed of radicalism plotting to overthrow our institutions, is as dangerous to our victory as a Nazi panzer division."

"... we are not trying to save gasoline or even rubber just for the sake of saving these commodities. They are only means to an end. The thing we must conserve and preserve is the transportation which is essential to the war effort and to the maintenance of the civilian economy and morale without which an all-out war effort cannot be sustained."

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REMARKABLE REMARKS—(Continued)

DAVIS M. DEBARD
Vice president, Stone & Webster
Service Corporation.

"Cessation of utility advertising for the duration of the war would be a deliberate sabotage of the investment built up during normal times."

EDITORIAL STATEMENT
The Wall Street Journal.

"Talk of the government paying vendors to sell at fixed prices shows how weak is the foundation on which we have expected to build price regulation."

J. HOWARD PEW
President, Sun Oil Company.

"If complete government control is vital to the successful production of goods for defense, it would seem just as logical that such a system should also be applied in times of peace."

LOUIS GUENTHER
Publisher, Financial World.

"Of our entire population it is conservatively estimated there are at least fifteen million who are directly interested in our corporate ownership, and being vitally interested in its welfare will demand from management and from our government equitable treatment. It is this influence which will have to be reckoned with in the future."

JAMES F. BURNS, JR.
Former president, Association of
Stock Exchange Firms.

"Today we are operating with a volume of securities transactions which is the smallest on record in the last twenty-five years, yet our business and our free security exchanges are a vital part in the American system of free enterprise, for they are the media through which any individual can acquire ownership—or, as I prefer to put it, partnership—in our vast industries."

DANIEL J. TOBIN
President, International Brotherhood of Teamsters.

"Groups of individuals going on strike in England, in violation of the existing rules governing strikes, are almost considered as enemies of their country. The same is true of employers. Any employer who refuses to abide by the final decisions of the bureaus of adjustment set up under the auspices of the Ministry of Labor can be prosecuted and sentenced to prison if necessary."

HERBERT LEHMAN
Governor of New York.

"At the end of this war, better than half of our industrial output will be going to one customer—our own government. There must be a gradual and constructive unwinding of war production. Business must be encouraged by government rapidly to regain its peace-time markets under private initiative. If we can do these things, private enterprise will, I believe, enter upon an era of unparalleled prosperity."

ERIC A. JOHNSTON
President, Chamber of Commerce
of the United States.


"We saw regulations and orders issued from Washington, directed in almost every instance to some form of control over the operations of business and industry. Never once have we complained that the rights of business were being usurped. Rather have we assisted the government, wherever and whenever possible, in the orderly administration of its war-time rules and regulations. This we will continue to do."

R&IE

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Now, when War Production makes prior claim to the manufacturer's output, is the time to seek quality and service as never before.

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SPECIALIST
for 31 years—in problems
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MENT.

RAILWAY and INDUSTRIAL ENGINEERING COMPANY

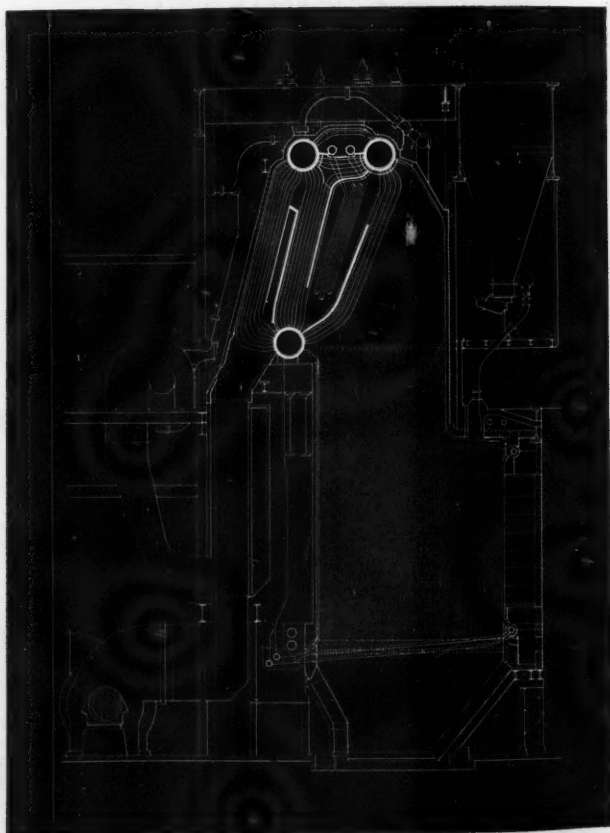
GREENSBURG, PA. . . . In Canada—Eastern Power Devices Ltd., Toronto

Cooperating 100% with the War Effort

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8 months of service...

for the arsenal of democracy.....



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/.....without a shutdown...

Here's another installation that merits a prominent place in the parade of C-E steam generating units which are doing an outstanding job in supplying steam for war production.

For this unit recently completed a period of continuous operation during which it was on the line 24 hours every day; 7 days in every week for a total of 8 months and 1 day.

The power station which it serves is one that's supplying victory kilowatts to an important war area, where men and machines are producing scores of war products . . . cargo planes and cartridges . . . tanks and torpedo tubes . . . Navy cranes and soldier's shoes . . . to mention just a few.

Not only is this station supplying the power for such production, but it is doing so with extraordinary conservation of fuel. For, since 1935, it has held the record for efficiency with a lower annual Btu rate than any other steam power station in the world.

The operators of this station have reason to be proud of its distinguished performance record as Combustion Engineering is proud of the fact that the huge boiler unit, which serves as the sole source of steam supply in the station, is of C-E design and manufacture, and that the installation of a duplicate unit is now nearing completion.

It is appropriate in recognizing this outstanding performance record to emphasize the remarkable achievement of our American public utilities generally in creating a power system which has been able to meet the enormously increased demands imposed by the war with relatively little addition to existing facilities and correspondingly small requirements for critical materials. It is largely because of the forward-looking policies and advanced engineering practices long characteristic of our utilities that America has the power resources required for its role as the arsenal of democracy.

COMBUSTION ENGINEERING

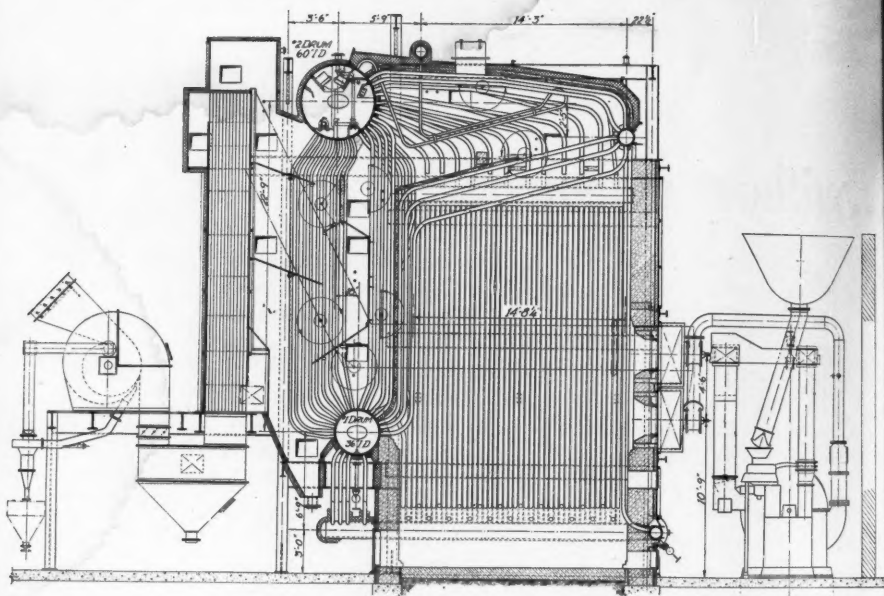
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INTERSTATE POWER CO.
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RILEY BOILER, SUPERHEATER, AIR HEATER, WATER COOLED FURNACE,
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They've done a job already. They've taught us how to build better *trucks*. We might have known they would. Ever see a war that didn't stimulate inventiveness and inspire ideas?

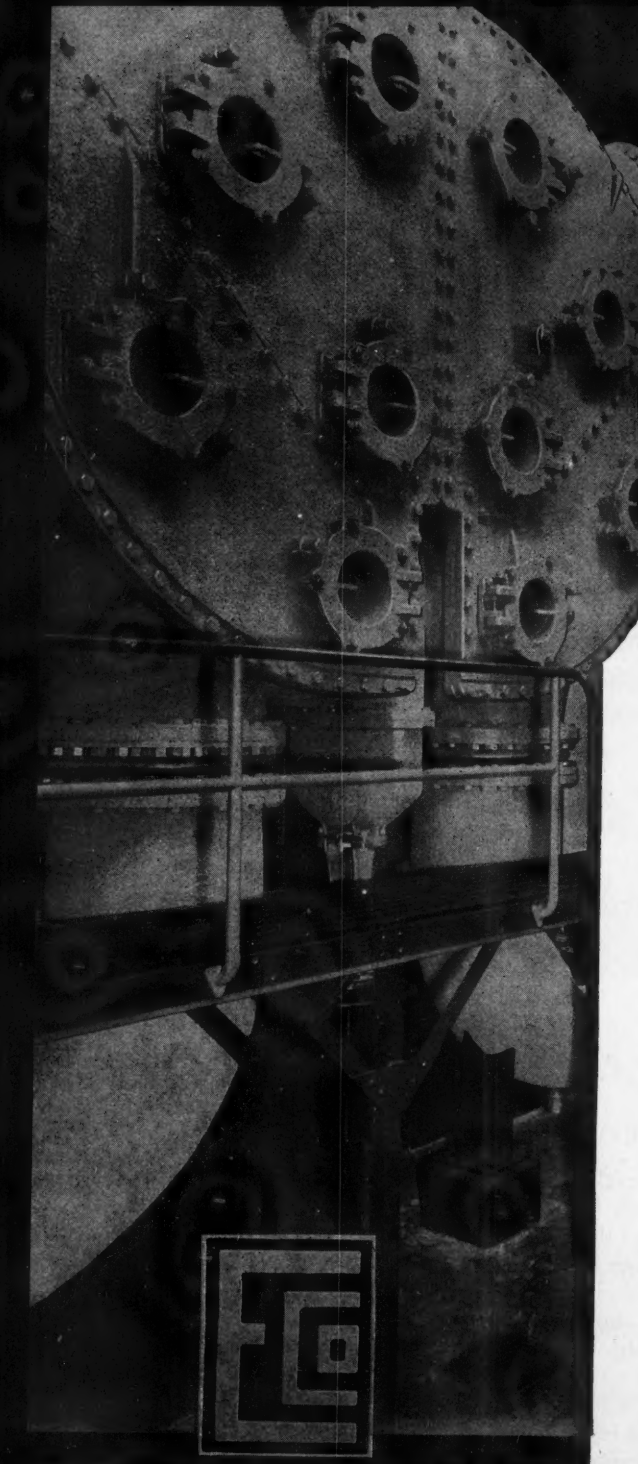
So see what you have to look for-

ward to! *Better* Autocars—stronger, longer-lived, more precise, more economical, more profitable. But that's tomorrow. Today, remember your pledge to the U. S. Truck Conservation Corps. Your trucks are your own, but their life belongs to the Nation.

AUTOCAR

MANUFACTURED IN ARDMORE, PA.—SERVICED BY
FACTORY BRANCHES FROM COAST TO COAST

ELLIOTT COMPANY



A good condenser meets the need on every count

The way Elliott builds these condensers considers many operating factors and analyzes the conditions, such as load factor, water temperature, pumping heads, vacuum, water quality and quantity, initial cost, operating expense. Elliott experience assures that these various conditions will be ably met.

An outstanding record of successful condenser applications makes the Elliott staff of engineers particularly capable of helping you with your problems. No obligation. Write us.



ELLIOTT COMPANY

Heat Transfer Dept.
JEANNETTE, PA.
District Offices in Principal






Utilities Almanack

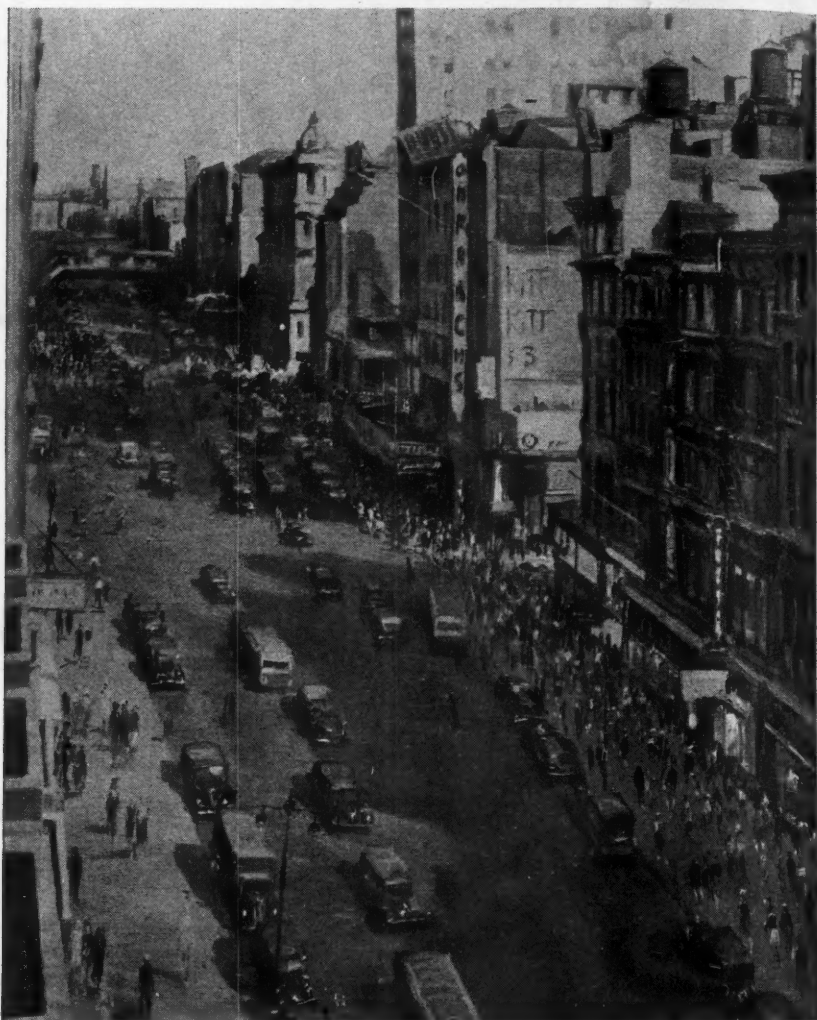
Due to war-time travel restrictions, conventions listed are subject to cancellation.



NOVEMBER



5	T ^h	1 American Water Works Association, Virginia Section, starts meeting, Richmond, Va., 1942.
6	F	1 National Chemical Exposition and National Industrial Chemical Conference will be held, Chicago, Ill., Nov. 24-29, 1942.
7	S ^a	1 Tax Institute will hold session, New York, N. Y., Nov. 27, 28, 1942.
8	S	1 National Industrial Council will convene, New York, N. Y., Nov. 30-Dec. 1, 1942. 
9	M	1 American Petroleum Institute opens meeting, Chicago, Ill., 1942.
10	T ^u	1 National Association of Railroad and Utilities Commissioners opens meeting, St. Louis, Mo., 1942. 
11	W	1 National Exposition of Power and Mechanical Engineering will open meeting, New York, N. Y., Nov. 30-Dec. 4, 1942.
12	T ^h	1 Alabama Independent Telephone Association starts convention, Montgomery, Ala., 1942.
13	F	1 Mid-Southeastern Gas Association opens meeting, Raleigh, N. C., 1942.
14	S ^a	1 National Association of Manufacturers will convene, New York, N. Y., Nov. 30-Dec. 4, 1942.
15	S	1 National Institute of Municipal Law will hold meeting, New York, N. Y., Dec. 2-4, 1942. 
16	M	1 Missouri Telephone Association begins meeting, Kansas City, Mo., 1942. 1 American Institute of Chemical Engineers starts session, Cincinnati, Ohio, 1942.
17	T ^u	1 American Society of Civil Engineers will hold meeting, New York, N. Y., Jan. 20-22, 1943.
18	W	1 American Institute of Electrical Engineers will hold winter convention, New York, N. Y., Jan. 25-29, 1943.



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By Alfred Mira

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Public Utilities

FORTNIGHTLY

VOL. XXX; No. 10



NOVEMBER 5, 1942

Holding Company Dissolution, Public Ownership, and War

Private utilities, declares the author, should not be forced into a state of public ownership by the simple process of setting up financial hurdles under the Holding Company Act which enormously handicap them, but which publicly owned utilities escape almost entirely—effect on the war effort.

By FERGUS J. McDIARMID

WILL extremely heavy taxation coupled with continued pressure for the dissolution of holding companies force the sale of many private utility properties to public authorities? Will this take place regardless of the wishes of the consumers and of utility employees and regardless of the urgency of concentrating every ounce of our national energy and efficiency into the war effort? These are questions which the recent

sale of the electric and gas properties of San Antonio Public Service to the city pushes to the fore.

The principal factors involved are pretty well understood. On the one hand we have the powers that be in Washington—or Philadelphia—continuing to insist that the holding companies be dissolved, and that right speedily. This in turn, if it is carried out, means one of several things. The stock of the operating utilities in the

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hands of the holding companies may be sold to the public for whatever it will bring. The owners of holding company securities may be asked to exchange these for the junior securities of operating companies. Or the operating properties may be sold outright to other private utilities or to public authorities.

Consider the first of these possibilities. At the present time in America investors are inclined to take a very pessimistic view of the junior securities of public utility companies. This view which used to be confined to holding company securities, and later extended to the common stocks of operating companies, has recently spread to operating company preferred stocks.

The reasons for this state of affairs are common knowledge. Investors fear that utility earnings will continue to be ground between the upper millstone of more or less rigidly fixed selling prices for utility services and the lower one of rising operating expenses and taxes. These operating costs are subject to all the upward pressures of the price and wage system in war time and at the present time one cannot be entirely happy about the measures taken to keep these pressures under control. The price of groceries keeps edging upward, and a good beefsteak becomes increasingly an object of veneration. And we continue to note the parade of wage increases designed to keep pace with the cost of living—as if the nation as a whole could possibly maintain its pre-war standard of living and successfully fight the war at the same time!

However, when the utilities suggest rate increases to offset rising costs the Office of Price Administration tends to object on the ground that this would

be inflationary. Of course it would be inflationary, but so is the hiking of wages and farm prices. It would seem that whether or not an inflationary process can be tolerated depends on who is its apparent beneficiary.

AN even more critical threat to utility net earnings is projected income and excess profits tax scales. In the leading article in the FORTNIGHTLY of August 27th, W. D. Gay made an effective survey of this matter. Mr. Gay's figures indicate that a tax scale as proposed by the House of Representatives (45 per cent normal, 90 per cent excess profits) would produce a 1942 Federal tax bill for the electric utilities 46 per cent higher than in 1941. This would serve to reduce net income available for the stocks by more than one quarter. Earnings for electric utility stocks in 1942 would be almost a third lower than in 1940 in spite of a 13 per cent increase in gross revenue in the interim.

One insidious feature of this tax threat to earnings is that it is hardly to be offset by rate increases, even if these were to be granted. Any increase in earnings before taxes which might be achieved would likely fall pretty largely in the excess profits brackets and only a small fraction of it would filter down to the stockholders. For example, on the assumption of a 45 per cent normal tax and a 90 per cent excess profits tax, less than 7 per cent of earnings subject to excess profits tax would become available for dividends. Rates to consumers would have to be increased by \$18.18 to provide one more dollar for the stockholders, assuming the increase in earnings to be fully subject to excess profits taxation.

HOLDING COMPANY DISSOLUTION, PUBLIC OWNERSHIP, WAR

Such is the picture which investors see before them when they decide not to buy utility equities. They can well imagine that if this is a long war, as it promises to be, and prices and taxes increase, the outlook will get worse before it gets better. Also the fear is very much alive that at least a substantial part of the increase in taxation brought on by the war will survive the fighting. If after the war we find ourselves with permanently higher price and wage levels, toward which the huge probable increase in our national debt would seem to point, investors fear that compensating increases in utility rates might be difficult to obtain. As long as this view continues to be widely held there will be little prospect of disbanding holding companies by selling the operating equities to the public, except at prices which appear ruinous to the interests of the holding company security holders.

CONSIDER the second possibility, the exchange of holding company securities for operating company equities. This is usually a complicated procedure involving positive and voluntary action on the part of a large group of individual security holders. Right now the owners of most utility holding company securities are a pretty badly shell-shocked lot with a strong inclination to sit tight. In such case, the op-

erating stocks which are not taken in exchange must be sold in the market in order to pay off the recalcitrants, and we again run headlong into the fact that there is no satisfactory market for such stocks at present. That is about what happened when National Power & Light tried to exchange the common stock of Houston Lighting for its own preferred. The deal bogged down because there was little hope of selling on any reasonable basis that part of the Houston stock which was not taken in exchange for the National Power & Light preferred.

This leaves only the third alternative, the disposal of operating properties to other private utilities or to public authorities. The recent sale of the San Antonio properties and the facts surrounding the financing of that deal stress the advantages which public authorities enjoy at this time in acquiring public utility properties. In an interesting article in the FORTNIGHTLY of September 10th, Ernest Abrams set forth many of the facts surrounding this deal. However, I would like to review certain of the points involved as seen through the eyes of a bond buyer.

BEFORE me is a circular of a bond house which was written to help sell the new San Antonio electric and gas revenue bond issue. Some of the points which it seeks to make may be



"... when the utilities suggest rate increases to offset rising costs the Office of Price Administration tends to object on the ground that this would be inflationary. Of course it would be inflationary, but so is the hiking of wages and farm prices. It would seem that whether or not an inflationary process can be tolerated depends on who is its apparent beneficiary."

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of interest. This circular goes so far as to suggest that the new municipal revenue bonds are better than the old first mortgage bonds of the private company in spite of the fact that the new bonded debt is to be about double the old. It contends that investments in privately owned utilities are threatened by taxes, forced sale to the public at a low price, and inadequate rates. With these threats removed, it claims that there is reasonable assurance that the earnings coverage on a bonded debt, equal to 100 per cent of the property value under public ownership, will be greater than that on 50 per cent of bonds under private ownership with these threats existing. It then seeks to prove this contention in the case of San Antonio by the simple expedient of eliminating the depreciation charge and relegating taxes to a position after debt service in arriving at debt service coverage for the new bonds.

There were, of course, a few things that the circular did not bring to light. It did not mention the fact that the new amount of bonds would be equal to 133 per cent of the value at which the property being acquired was carried on the books of the private company, less the depreciation reserve which had been accrued against that property. The prospectus prepared in connection with the new bonds sought to justify their amount by means of an appraisal allegedly based on reproduction cost new less depreciation. Such appraisals remind us of experiments we used to conduct in the physics laboratory when, learning the answer in advance, and working judiciously toward it, we were able to achieve results which for scientific accuracy left nothing to be desired. The appraisal in this instance yielded a

result far higher than the private company's depreciated book value on which its capitalization had been based.

SINCE private utilities are now forced to justify their amount of outstanding securities largely on the basis of original cost less depreciation, it stands to reason that they can hardly afford to compete with municipalities regarding the price which they can afford to pay for properties.

To cite a specific instance recently in the news, the city of Birmingham, Alabama, could doubtless issue bonds to buy the electric property of Birmingham Electric for an amount considerably higher than that at which Alabama Power could place that property on its books. Certainly the city could issue a great deal larger amount of bonds to purchase the property than could Alabama Power, and the latter's ability to finance part of a purchase price through the sale of stock of any kind would be very questionable at this time.

Also, our circular's handling of the depreciation item was, I think, a little less than frank. It advanced the contention often put forward in such instances, that since the municipal system would be retiring its bonds serially, it was not necessary to allow for depreciation. It did not go on to say that if funds to make necessary property additions or retire debt do not come from a depreciation charge they will have to come from some other source, such as surplus earnings or the incurrence of additional debt. If earnings before depreciation be considered in arriving at coverage for debt service, then bond maturities should be added to interest in arriving at debt charges.



Large-scale Financial Operations

"... there are strong reasons for calling a halt to large-scale financial operations which are not necessary for the prosecution of the war. For one thing we do not seem to be doing a very good job of war finance. This year we apparently only plan to raise through taxes between 30 and 40 per cent of the spending requirements of our national government, which compares poorly with an expected 55 per cent of expenditures from taxes in Canada."

Undoubtedly at this time the bonds of publicly owned utilities, even when these are revenue bonds supported by earnings only, and do not contain any general municipal guaranty, tend to sell on a much more favorable basis than those of corresponding private utilities. In the case of San Antonio the city sold over twice as many revenue bonds at an average interest rate to investors of about $2\frac{1}{2}$ per cent, as the private company had sold first mortgage bonds a couple of years ago on a 3.11 per cent basis. Even the longest of the city bonds, due in thirty years, the same maturity as those of the private company, sold to yield only 2.9 per cent.

No doubt such municipal bonds enjoy some notable advantages as compared with those of private utilities. At the present time, at least, the return on them is not subject to income tax, and this makes them overwhelm-

ingly attractive to individuals in the higher income tax brackets, and provides for them a market which is largely closed to the low coupon bonds of private utilities. Then the provision for serial repayment in connection with nearly all municipal bond issues provides an element of protection against obsolescence or declining earning power of the industry which is quite highly valued by many investors. This provision is sadly lacking in most long-term private utility bond issues. The serial repayment of municipal utility bonds also enables a considerable part of such issues to be sold on the favorable basis accorded short- and medium-term bonds in recent years.

However, the chief advantage which publicly owned utilities have over private utilities in raising funds is not confined to the field of bond financing. It lies in the fact that the private utilities must meet a considerable part of their capital requirements (the present SEC

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idea seems to be 50 per cent) from the sale of equity securities, or out of ploughed-back surplus earnings. And, as we have previously pointed out, since this part of the capital structure has a claim on earnings junior to income and excess profits taxes, such equity money can now only be raised, if at all, on a very unfavorable basis which would seriously dilute the holdings of existing investors. The publicly owned system, on the other hand, can raise all its capital requirements through the sale of bonds, even up to 100 per cent or more of an inflated property valuation, and not only the interest on these bonds but principal repayment as well are charges on earnings before all taxes. Earnings of as little as 5 per cent of the amount of such bonds will usually be sufficient to pay interest and retire all the principal as well over a period of about thirty years.

AND, as the writer pointed out in a previous FORTNIGHTLY article, at this stage in the history of finance capitalism the market for bonds is infinitely broader, more active, and more favorable to the would-be raiser of capital than the market for stocks. This is, at least in part, due to the circumstance that so much of our investment is now due through the medium of financial institutions which are largely restricted by law or other weighty consideration to bond investments. Such is indicated by the fact that utilities have readily sold to institutions, chiefly life insurance companies, large blocks of bonds on a very favorable basis while their equity securities have gone begging. Of course, the type of organization which can finance entirely with

bonds is at a great advantage under such conditions.

This brings us to the heart of our subject; namely, whether the set of financial pressures described on the preceding pages should be permitted to decide the issue between public and private ownership of utilities in many localities. In these times the overriding criterion which we must apply to matters of this sort is their effect on our war effort, including the financial phases of that effort.

In the opinion of the writer there are strong reasons for calling a halt to large-scale financial operations which are not necessary for the prosecution of the war. For one thing we do not seem to be doing a very good job of war finance. This year we apparently only plan to raise through taxes between 30 and 40 per cent of the spending requirements of our national government, which compares poorly with an expected 55 per cent of expenditures from taxes in Canada. On top of this, not nearly enough war bonds are being sold to begin to fill the gap between expenditures and taxes in spite of the lavish efforts of movie stars and other high-pressure devices. We are generally failing to meet our monthly quotas for the purchase of bonds, quotas which are ridiculously small in proportion to the requirements of our government. Certainly if matters continue their present course, the gap which will have to be bridged in this fiscal year by the expansion of bank credit, which is only a polite term for inflation, will be very large, possibly running between \$20-\$30,000,000,000. In the light of these dangerous facts, any influence which tends to cut into the sale of war bonds is hardly to be tolerated.

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CONSIDER from this point of view the effect of a large bond issue to finance the purchase of a utility property by a municipality. There are two main groups of purchasers for such an issue: large financial institutions, chiefly life insurance companies, and wealthy individuals and their estates who find the tax exemption feature attractive. *To the extent that these groups buy such bonds they cannot invest in war bonds.* As for the first group of buyers, the time is rapidly approaching when, for reasons of public relations and policyholder pressure, they will probably feel impelled to invest nearly all of their available funds in war bonds or in other securities whose issuance is necessary to further the war effort. As for the second group, this hardly seems the proper time to build more bomb-proof shelters for large fortunes by expanding the volume of tax-exempt securities outstanding.

Of course, it will be argued that the funds released through the redemption of the securities of the private companies being purchased can be invested in war bonds. Some of this will doubtless take place but there is no guaranty that all of it will be so invested. Inevitably, some of the funds set free will add to inflationary spending.

Now let us consider the matter from a purely physical point of view. The distribution of a large block of municipal utility bonds, or for that matter any other type of refunding bonds, requires the expenditure of a great deal of energy and effort which might in these times better be directed into some other channel. For instance, in promoting the sale of war bonds. Prospectuses and circulars are drawn up and printed in large quantities and help to load down the mails. Incidentally, a very large proportion of these pass at the end of their journeys immediately to wastebaskets. And there is bound to be considerable traveling around in the course of arranging the deal and selling the bonds. All of this seems like luxury to be dispensed with in a nation engaged in all-out war.

CONSIDER also the matter of telephone calls. All of us have been reading large advertisements in newspapers and other publications requesting us to use the long-distance telephone facilities as sparingly as possible, especially during the busy hours of mid-morning and afternoon, and especially into and out of such centers as New York, Chicago, and Washington. We are told that our restraint in such



“THE great majority of investors and not a few utility men are quite ready to admit that in its brief history the Securities and Exchange Commission has done a very fine job in protecting the interests of investors and improving the financial health of the utilities. Top-heavy capital structures have been brought into better balance and greatly simplified. Depreciation policies have been strengthened and certain holding company practices, which have done much to undermine investor confidence in the industry in the past, have been curbed.”

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matters will help the war effort. Presumably those large-scale ads are not inserted to help the publishers. And, the other night in the "Telephone Hour" on the radio a similar plea was made. These are its exact words as I took them down: "Your part of the job is to leave the wires open for war calls. Please do not call long distance unless you must. If you must, be brief."

Now anyone familiar with the process of bond distribution in this country knows that it involves extensive use of the long-distance telephone facilities. In the case of the San Antonio deal, for example, even a moderately large potential buyer of the bonds was bombarded with long-distance calls extending over a period of several days, at first to feel out the market and later to sell the bonds. These calls took place mainly during the busy hours and the great majority of them originated in the center of New York and Chicago.

Far too many of them failed to be brief, and included inquiries as to local weather conditions and the state of the recipient's health. If the strain on telephone facilities is as bad as the telephone people claim, then the extensive use of these facilities for such purposes as the above seems to be doing the work of Hitler and Hirohito.

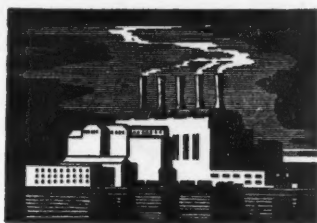
YES, I think a very good case can be made at this time for putting the clamps on all sizable financial operations which are not necessary for the war effort. In the last analysis this would require abandonment by the Securities and Exchange Commission, for the duration, of pressure for holding company dissolution. For even if it were possible to distribute junior securities of utilities to the public this

would still involve the above-described financial processes which appear objectionable and superfluous in the midst of a total war.

The great majority of investors and not a few utility men are quite ready to admit that in its brief history the Securities and Exchange Commission has done a very fine job in protecting the interests of investors and improving the financial health of the utilities. Top-heavy capital structures have been brought into better balance and greatly simplified. Depreciation policies have been strengthened and certain holding company practices, which have done much to undermine investor confidence in the industry in the past, have been curbed. Indenture provisions in bond issues have been much strengthened.

Undoubtedly much still remains to be done. The funded debts of some operating companies still are on the high side. Some complicated and inflated holding company structures remain in existence causing an unfair distribution of voting power. All of these matters should be taken care of in due course. However, one must put first things first, and the first thing now is to win the war. It is extremely doubtful if further financial reform should be pressed at this time when this is likely to bring about new security issues. It does not matter a great deal whether the new securities are sold by private utilities in connection with the dissolution of holding companies, or by public authorities to buy out private utility properties. Both seem objectionable for the reasons which I have enumerated above.

ALSO, there is the matter of conserving human energy in the ranks



Plant Expansion during War

"THE present outlook is that as long as the war lasts the new money requirements of the utilities will be quite limited. Lack of materials rather than capital will bar plant expansion. New property additions will be held to a minimum by the pressures of a war economy, including the scarcity of copper and the turbine requirements of naval vessels. A large part of these war-time additions will be financed out of depreciation funds so that the sale of securities to the public should be of fairly small proportions."

of utility personnel. In these crucial times the capacity for work and thought on the part of utility executives must be pretty fully occupied with problems of an operational nature, of squeezing the last possible kilowatt hour of energy out of existing equipment. They must make their existing generating equipment meet the demands of war industry so that most new turbines can go to the Navy, and they must do this with depleted staffs. Obviously their attention should not be misdirected from problems of this sort to matters of a purely financial nature.

The argument has been advanced by some members of the Securities and Exchange Commission that further reform of utility capital structures at this time can be justified as a war measure. Their reasoning seems to be that only through such a process can the way be prepared for the financ-

ing of capital requirements necessary for the war effort. This approach seems to lose sight of the very secondary rôle which orthodox financial considerations have so far played in determining the course of this war. We recall that Stanley Baldwin and Mr. Chamberlain were great men to balance budgets at a time when Mr. Hitler was going heavily in the red to build up his war machine. We recall the glib assertions that the Nazis could not "afford" to fight a war, as if the only coin that ever won a war was not well-directed human energy. It requires about 10 kilowatt hours of electrical energy to refine one pound of aluminum and it matters not at all whether the utility that produced it is capitalized entirely with common stock or is up to its ears in debt.

THE present outlook is that as long as the war lasts the new money

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requirements of the utilities will be quite limited. Lack of materials rather than capital will bar plant expansion. New property additions will be held to a minimum by the pressures of a war economy, including the scarcity of copper and the turbine requirements of naval vessels. A large part of these war-time additions will be financed out of depreciation funds so that the sale of securities to the public should be of fairly small proportions.

Also we may rest assured that a utility's ability to obtain new generating capacity or other types of plant while this war lasts will not be determined by the condition of its capital structure. It will be decided by the needs of war industry in its territory and whether or not these needs are more pressing than other needs elsewhere. The process through which the new equipment is to be financed will be quite incidental to the main decision. If equity financing is out of the question, as it is likely to be, or if the credit of the utility will not permit the sale of more bonds on reasonable terms, or if such sale would throw its capital structure too badly out of balance, the matter might be handled through the formation of a separate generating corporation. This has already been done in the case of a number of utilities in recent years, including Public Service of Indiana, Virginia Public Service, and Ohio Public Service. Necessary public financing in such instances is done through serial or sinking-fund bonds and these have had a ready sale, usually to a small group of financial institutions. In this way a total overhauling of the utility's capital structure can be avoided or at least postponed into more suitable times.

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THERE is considerable reason to believe that at the present time we are living in a period of revolution; revolution, that is, in the sense of a drastic and major change in the ideas and institutions which constitute the framework of human existence. According to this school of thought we have reached a period analogous to that of the French Revolution when the wreckage of feudalism was being swept away to make way for the system of democratic free enterprise capitalism which succeeded it. The war is a struggle to determine whether the new world structure which is about to emerge will be set in a democratic or totalitarian mold. If such a premise is even remotely in line with the facts, it would be premature to try and predict the nature of the framework in which the utilities will operate in future, whether it will be largely one of private enterprise as we have known it, of outright public ownership, or of something between the two.

One can only hope that this matter will be determined on the basis of sound fundamentals and not by superficial or secondary factors. To be more specific, private utilities should not be forced into a state of public ownership by the simple process of setting up a set of financial hurdles which enormously handicap them, but which publicly owned utilities escape almost entirely. I have described some of these hurdles in considerable detail in this article. They largely result from the comparative positions regarding taxes of the two classes of utilities. In the past with a relatively low tax structure the private utilities have been able to take these hurdles in stride, but with the kind of tax structure we are now

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facing they are likely to prove vastly more difficult to surmount. And as if to exploit the situation against private ownership to the fullest, pressure continues undiminished for the sale of operating companies by holding companies at a time when the only practical market for them lies in the field of public ownership.

WHAT then are the factors which should determine the course of utility ownership and control in future? First there is the matter of operating efficiency. The war to date has thrown a good deal of light on the efficiency or lack of it of governmental bureaucratic management as this has so far developed in democratic countries. It has been pretty well established that with few exceptions government service has failed to develop the type of individual initiative required to get things done quickly and efficiently. The intellectual and moral climate there is not suitable for the development of drive and originality. Also one gathers the impression that it is exceedingly difficult to shelve an incompetent in government service. The best that can be done is to shift him to as good or a better job elsewhere, so that he will block traffic on a different street. Prac-

tically all of the managers and directors of the economic phases of our war effort received their training and development in the field of private enterprise. In this country, at the present stage of our history, a wholesale swing over to public ownership of utilities in the near future seems hardly to be in the interest of long-run operating efficiency.

In pre-war days, the British civil service used to be held up to us as tops in quality and efficiency. Yet during the course of the war this civil service has been subject to a barrage of criticism on the score of red tape, and general inability to make necessary decisions and get things done, by such authoritative publications as the *London Economist* among others. At the present time the farthest that the advocates of public ownership of utilities in Britain seem to care to go is to suggest some middle ground between private enterprise and outright public ownership. They suggest some form of organization which will provide a large measure of public control of general policies with the retention of the operating efficiency of private enterprise. The Grid and the London Passenger Transport Board are pointed to as satisfactory working examples of the idea.



“AFTER all it makes very little difference to an individual customer whether a private or municipal electric system supplies his home with electricity, or to which he pays a few dollars a month for the service, providing, of course, that rates and service are the same. . . . one cannot help but feel that the fellow who has worked for a period of years carving out a place for himself in the organization of a private utility must have vastly deeper feelings on the subject if his organization were threatened with public ownership.”

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ANOTHER factor to be considered is the desires and aspirations of the utility employees themselves, those who are devoting their working lives to the operation and management of our utilities. How do these people feel about the matter? Do the majority of them feel that they will lead happier and fuller lives working for organizations which are part of a private enterprise system, or would they prefer to work for utilities which are publicly owned? This is a phase of the matter which has received remarkably little consideration in the past, and there has always seemed to the writer to be something quite callous and undemocratic about the making of decisions deeply affecting the working lives of large groups of utility employees on the strength of a vote in a city council or even of a rather uninterested electorate.

In the writer's home city of Fort Wayne, Indiana, there are two rather warmly competitive electric systems, one of which is a private utility and the other is municipally owned. They have identical rate structures and both are well and efficiently run. I happen to be one of a minority of about 40 per cent of the customers in town who take service from the private company, not for any ideological reason, but mainly because they were the first to extend their lines into the outlying part of town where I live. Furthermore, one can in our town switch allegiance from one utility to the other at any time on short notice and at no cost or inconvenience. However, there has been no reason to change over. If I had started to take service from the municipal system I would doubtless still be doing so.

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THE local situation is an unusual one but it illustrates a point. After all it makes very little difference to an individual customer whether a private or municipal electric system supplies his home with electricity, or to which he pays a few dollars a month for the service, providing, of course, that rates and service are the same. I imagine that my own quite casual attitude on the subject is that of the typical consumer. However, one cannot help but feel that the fellow who has worked for a period of years carving out a place for himself in the organization of a private utility must have vastly deeper feelings on the subject if his organization were threatened with public ownership. Even if his job, in the narrower sense of that term, were not threatened, his place in the private enterprise system would be.

And there cannot be much doubt that most Americans, who are among the world's foremost individualists, tend to thrive better and to lead happier and fuller lives in private enterprise than in some form of governmental or public employment.

Since he has such a deep personal interest involved it would seem that the voice of the utility employee should carry greater weight in this matter than that of a customer or voter—a mere bystander so to speak. It would seem but fair in future decisions between private and public ownership of utilities that the wishes of those most deeply and directly concerned be polled and given some weight in the matter. This idea may be both impractical and unorthodox, but it will not seem entirely ridiculous to anyone who holds a job which he values in any phase of our private enterprise system.



Employee Shifts during War “Tough, but Interesting”

While Washington has been talking tough about taking men for the armed forces, and both sexes for war production, the displacements, declares the author, seldom amount to 5 per cent. That leaves a basic 95 per cent to help you meet the changes. The load has come gradually, and some Los Angeles utility men find it more interesting than tough.

By JAMES H. COLLINS

As winter approaches in southern California, the labor situation in utilities is summed up by one executive as, “Tough but interesting—and not altogether what we had been led to expect.”

What he expected was the drastic changes predicted from Washington—from 9,000,000 to 10,000,000 men ultimately transferred from civilian jobs to the armed forces, and 20,000,000 to 25,000,000 people for war production; with 55,000,000 to 60,000,000 totally available, women as well as men, that leaves around 25,000,000 to carry on the civilian production and services usually rendered by 45,000,000 to 50,000,000 gainfully employed—

Certainly Washington has “got tough” in announcing such figures, with hints that the whole kit and kaboodle will be registered and rationed out. You get the feeling that, if you operate cars and busses, or sell gas or electricity, you may get down to the office some morning and find that everybody has gone to work for Henry Kaiser, or Donald Douglas, or Bob Gross.

Now, it hasn't worked out that way at all!

“Maybe we haven't seen anything yet,” reflected this executive. “But so far, I get a lot of comfort out of the story of the Irishman—beg all Irishmen's pardon—who fell with his hod off the thirtieth floor of a skyscraper,

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and was heard to say, as he passed the third floor, 'So far, I'm all right.' "

So far, regimentation by Washington has materialized chiefly in the orderly appraisals of workers made by the United States Employment Office, and their assignment to job openings where their abilities will be most useful. There has been a tremendous scramble in workers, as in materials, and the USE has taken plenty of criticism on the score of favoring this industry, and neglecting that, but in our own region the service is staffed with businessmen, and it has fewer errors than runs.

IN some departments of the utilities, there is an actual surplus of labor—even some lay-offs. Those are the construction departments. Restrictions on new facilities, due to material shortages, have made it necessary to find other work for the men, or let them go elsewhere. If you have only such new construction as telephone exchanges for Army camps, or trolley lines to shipyards, and an avid demand for switchboard operators or trainmen, you obviously have some square pegs and round holes.

Well, what of it—can't they all find better-paid jobs in the shipyards? During the depression there was a surplus of operators and trainmen too—more pegs than holes, round and square. Nowadays, the displaced peg quickly finds a billet.

But in the depression, utility jobs proved more dependable than others, and even now your company benefits by that reputation for stability. The war job pays more, and is mighty tempting, but your people think twice before stampeding to the war plants.

NOV. 5, 1942

Even in a national emergency, when the construction men can find jobs elsewhere and be more useful in the total effort, you don't like to see them go. They don't want to go themselves, and like the soldiers want some assurance of getting old jobs back when it's all over.

LAST spring, before the labor shortages began to affect utility organizations, a group of shopmen with one transit company got to discussing shipyard jobs. The wages were dazzling, and the suggestion that shipyard jobs might not be as steady as a utility job was dismissed with the reflection, "This country is always going to have ships in the future." The group worked up its temper to the quitting point, and went away to the shipyards. But it was only a small group, and within a month most of the men were back in the shops. They didn't like the adventurous life of the shipyards, compared with the sober work of the shops.

"Since then," says the personnel manager of that company, "we have had very few good mechanics lost to war industries. Our men have gone into the merits of the thing, and are well aware of the advantages in a seniority job, with its comparative security and benefits for long service. They made this test themselves, early in the game, and got the right answer. We didn't have to put up any arguments."

In the telephone service, long years of maintaining jobs through depressions by undertaking new construction for better times ahead has been amply proved thus far during this greatest of all upheavals. Until last spring, the telephone company had job

EMPLOYEE SHIFTS DURING WAR "TOUGH, BUT INTERESTING"

applicants when the war plants were recruiting as far east as the Mississippi. The applicants had weighed the stability of a telephone job against the adventure of a war job, and of course those who decided for stability, because they were built that way temperamentally, put in their applications—as the adventurous ones went over to Lockheed or Douglas. It is chiefly in women switchboard operators that any shortage has developed—the war traffic has sent the demand skyrocketing, and they are needed in unprecedented numbers.

So, the first thing utility men discover about the Washington predictions is that the millions of people who are to be switched from one industry to another will not go in millions. Not if they are already employed in jobs that they rely on. The unemployed and footloose people, and especially the young people who have still to make a start, are received by thousands at the war plant hiring offices. But in utility jobs, where there is confidence between employees and company, the displacements will be in hundreds, and even in dozens.

New hirings are necessary to replace drafted men and provide for the war load that is coming. And new

methods are being learned in hiring.

Our utilities and civilian industries have taken a page from the war plant hiring book.

First, the war plants hired all the experienced people they could find, starting at the factory gates and then going afield, until a farm boy in Iowa, or a garage mechanic in Missouri, could go to a local office, discuss his prospects for an aircraft job, perhaps train in his own town, and if he qualified, come to California.

When the experienced and trainable material was pretty well exhausted, the war plants started looking for people with skills that could be used in their work. A manicure girl worked with her hands, and could be taught an assembly or gauging job quicker than a shopgirl who sold goods. But the shopgirl might be good at paper work, and therefore good material for other war plant jobs. There were heavy raids on beauty parlors. The stores and banks lost people. But they also learned how it was done!

BANKS were quick to adopt similar tactics, probably because they were first to lose people, and because there is a broad margin between what a bank can pay and what a shipyard can pay.



Q "IN some departments of the utilities, there is an actual surplus of labor—even some lay-offs. Those are the construction departments. Restrictions on new facilities, due to material shortages, have made it necessary to find other work for the men, or let them go elsewhere. If you have only such new construction as telephone exchanges for Army camps, or trolley lines to shipyards, and an avid demand for switchboard operators or trainmen, you obviously have some square pegs and round holes."

PUBLIC UTILITIES FORTNIGHTLY

The banks wanted men and women who could handle money and pass on checks. They found them in the supermarkets, among the checkers who total the self-serve customer's assorted purchases, make change without making mistakes, and pass on the worth of checks of many kinds, including those tendered by the professional swindler. The latter is truly a professional, and at his best gets a steady living at this trade, maybe owns his home, pays taxes, and considers himself a solid supporter of the community.

The banks developed other devices in hiring. They went to the public schools and explained the nature of bank work, stressed its advantages as a career, even conducted model bank operations with the students, to show what the work was like. They modified the rather strict investigations that had governed hiring, immediately putting at work the newcomer who had the required ability, and while he was on probation making the necessary character investigations that had always preceded hiring. They extended their hours for keeping the personnel offices open, so that people unable to apply for jobs during banking hours could come at their convenience.

YESTERDAY, men were hired for their experience in the kind of work to be done; but today they are hired for their experience in the next kinds of work, as the best basis for learning the kind of work to be done.

One transit company has found that service station work gave men experience that can be most quickly converted into ability to run street cars and busses.

The service station operator was carefully chosen by big oil companies—so carefully, that there was more truth than wisecracking in the saying that you had to be a college graduate to wipe windshields and check oil. The company men were sent to school, and taught the technical tricks of the trade, with its bookkeeping, and they were especially taught manners and salesmanship.

There is a lot of room for salesmanship on transit vehicles, and will be more, if they are to hold some of their traffic gains after competition with private automobiles returns.

Thousands of service station operators have been laid off this year in California, and nearly two thousand service stations have been closed. They have become worth more dead than alive, because their underground tanks are immediately dug up for other uses, and their pumps, piping, wiring, small motors, tools, and other equipment are needed in other places.

Many of the operators have gone into the armed forces, and others will be called, but those who are deferred make excellent trainees for conductors and motormen, and the transit service offers advantages such as permanence in employment, with retiring pension, and thus far, sometimes with an improved draft status.

UNDERSTANDING the kind of men who have gone into service station work has been a factor in finding good utility material among them. For this has long been a blind alley job, with possibilities of promotion for very few, and those the best. The majority has benefited by training to get into other occupations, while a minor-

EMPLOYEE SHIFTS DURING WAR "TOUGH, BUT INTERESTING"



Experienced Employees

"YESTERDAY, men were hired for their experience in the kind of work to be done, but today, they are hired for their experience in the next kinds of work, as the best basis for learning the kind of work to be done. One transit company has found that service station work gave men experience that can be most quickly converted into ability to run street cars and busses."

ity has risen to general selling and management jobs with the oil companies. It is among those who were determined to stick, and win promotion, that the best utility recruits have been found.

Utility trainmen have thus far been classified as workers directly essential to the war effort, and where utility companies have sent representatives to local draft boards to present their cases, many have been deferred. But military service is one of the incalculables in the labor problem. The Army frankly admits that all men in industry, of military age and fitness, may be considered "on loan" to employers, and liable to call as the armed forces grow. Still, it is the employer who has the greatest responsibility in presenting facts to secure deferment. He can do much to protect his organization by keeping informed on the draft records of all employees subject to call, and by sending

representatives to appear before local draft boards. These boards are often far away from the place of present employment, and many of the boards are not well informed about the essential services necessary in war. In the months ahead, it will be more than ever necessary for the utility employer to present the facts that will bring draft board decisions for the good of the nation, the draftee, and his organization. In England, many essential workers had to be sent back from the military forces. In our selective service, we are clearly trying to avoid that waste motion.

EVERYBODY talks "tough" about the displacements that are coming; predictions are made of as high as 75 per cent women in war industries—but everybody ignores the peculiar psychology of labor in war time.

"One thousand applicants for 999

PUBLIC UTILITIES FORTNIGHTLY

jobs, and all is well," says a statistician, "but a thousand jobs for a thousand applicants, and everybody goes crazy with the heat."

All jobholders are today potential "Okies," ready to hop out and travel—even to another job in the next block.

There is selective service, and enlistment to make men restless, as well as the quiet recruiting of specialists like oil field workers, road construction men, overseas units of executives from certain industries who are needed for organization and management of shops and supplies, demolition if necessary, rehabilitation if something like time-tables are kept—

These activities, not widely publicized but coming to the attention of most businessmen, can be recommended as a tonic for gloom inspired by bad war news today. We undoubtedly have good "brass hats," and they are making no small plans, and these specialist organizations indicate the completeness of those plans, and foreshadow special jobs to be done on a reconquest time-table.

MEANWHILE, they add to the general restlessness. Everybody feels that he can get another job tomorrow; anyway, he may be drafted into a war plant; or he might be frozen in this job, and better see what other kind of work he can get into; perhaps his job is in a nonessential business, and is shrinking.

This unrest is reflected not only in scarcity of new employees, but in the slackening of discipline and service standards. For a sample, you can just press your buzzer, and see what happens, how fast, how smilingly, and

compare that with what happened a year or two ago.

Here is something that will be found when business begins replacing men with women.

"Oh, we'll hire women!" is a common saying now, just as a year ago it was, "Well, you can use plastics!"

In more than one business, some advance publicity has been secured for girl conductorettes, truck drivers, welders. A couple of Hollywood extras photographed in the neat new uniforms on the back of a car and bus strike the newspaper reader as a change not hard to take.

Only, they are not going to look like that, either to the passengers or the traffic manager. The public will find, when they come, that they have aged, and got rather hard-boiled, while the traffic manager will be up against restlessness in a new form.

JUDGING by experience in the telephone organization, where almost astronomical quantities of new operators seem to be needed, there will be the general restlessness, and another restlessness peculiar to women.

There is pregnancy—the birth rate is up.

There is the problem of what to do with the children while Mother works. As the automobiles are laid up, we have too many parking lots, and as the women go to work, we have too few parking lots for kiddies. Southern California war industries have found this a serious problem. The lady next door who kept an eye on the children has got a war job herself, and the children roam the streets. Some kids have been found locked in houses and trailers while parents were at work, or roam-

EMPLOYEE SHIFTS DURING WAR "TOUGH, BUT INTERESTING"

ing like the wild children of Russia after the revolution. Men who work nights cannot sleep because the children are noisy, and that shows up in their production. Mother's production falls off because she is worrying about the children.

Many a resignation among organizations employing women is handed in with the explanation that there is nobody to take care of the children, and none of the arguments that induce employees to stay, in spite of better pay elsewhere, have any force in these cases.

Good wages are an influence—Father is making more money than he ever drew down before, something is due the children, so Mother quits to look after them.

DAY nursery schools are one promising solution, and the WPA around Los Angeles has thirty of them in operation. Mothers pay 25 cents a day for each child. Those unable to pay may be taken free, or paid for by a charitable organization. Besides schooling, the kids get lunch, some medical attention, supervised play, amusements to keep them busy for a period longer than school hours. As set up here, the average nursery school accommodates around thirty-five children, for whom five instructors and supervisors are necessary. Such schools

had been going through the depression, but women going into war work made it necessary to increase the number. WPA schools operate under a government social service plan.

As women are taken into new industries, it may be necessary for employers to provide schools. At this writing, the eight aircraft companies in the Los Angeles area are doing a job on nursery schools that might be adaptable to utility companies, tackling the problem together. These companies are widely scattered as to location, but have a technical association through which their best specialists are set onto a new problem. As more women were hired, the school question arose. The technical association is now gathering data by questionnaire among women employees, asking about children, how many, how taken care of while the mother works, what are considered requirements for schools in study, play, hours per week, location, and so on. If schools are found necessary, they will meet the needs in location and character.

AIRCRAFT makers and war plants generally in this region, excepting shipyards, have one of the utility executive's problems in hiring—that of not being able to pay fabulous wages. The very word "aircraft" has come to smell of money, but the learn-



THOUSANDS of service station operators have been laid off this year in California, and nearly two thousand service stations have been closed. They have become worth more dead than alive, because their underground tanks are immediately dug up for other uses, and their pumps, piping, wiring, small motors, tools, and other equipment are needed in other places."

PUBLIC UTILITIES FORTNIGHTLY

ing and starting wages are not lavish; the biggest earnings are made on overtime, for which an employee must qualify by acquiring speed or skill, and so there is the constant threat, silent or spoken out, "Well, I don't have to have this job!" More than one policy has to be decided with that in view—for example, you might forestall future transportation trouble if employees would double up and redouble in their own autos. And you could get "tough" about that—but suppose they decided that they didn't need their jobs?

The present labor situation is certainly tough, and promises to get tougher this winter; but it is also increasingly interesting, and nothing to despair of, if the basic conditions are kept in mind.

In the first place, the most violent disruption suffered by any industry or trade seldom exceeds 5 per cent of employees lost.

That leaves 95 per cent to anchor the business, and among them most of the higher-ups and supervisors, who are capable of training new people, or should go to school to learn how.

THIS body of people, moreover, have earned seniorities and promotions with their company, believe in it, intend to stand by it. Repeatedly, efforts have been made to stampede them into higher paid jobs, and it has always been found that their standing with their company is the thing they value most. Again and again, in different forms, that question has been put up to the wage and salary earner alike, and the answer is always the same—if they have standing, that is like their life insurance.

Therefore, if the company has de-

veloped progressive employee policies in past years, become known as one that found ways to keep people when times were bad, it has a rating that greatly helps today. Its best people will stick, and there are utility companies in the Los Angeles area that have steadily had waiting lists of job applicants, regardless of the turmoil, because even in these times those companies are good—for a fellow to land with.

Even in the mushrooming war organizations, something of the same kind is found.

One of our aircraft companies recently circulated a questionnaire among employees, asking this and that, giving a chance to "beef" about the company if they wanted. One set of questions related to their opinion of the company as a good concern to work for now, with an outlook for the future. Sixty per cent thought their company best among aircraft concerns; 87 per cent believed its planes were best; 45 per cent said their chief interest in their jobs was the hope of future advancement; 19 per cent said they were training for an aviation job in the future; and an estimate of \$500 to \$2,000 was placed on the value of the training they had received at company expense—more than 60 per cent of them answered that way.

ONE question got a small vote—"Do you value your present job because you are helping win the war?" Only 19 per cent answered affirmatively—if it had been framed as the second good reason for being in their jobs, the vote would undoubtedly have been larger.

The place you start from in war-

EMPLOYEE SHIFTS DURING WAR "TOUGH, BUT INTERESTING"

time hiring is that base of solid loyalty. It is a foundation of employee self-interest, admittedly, but if past policies have been such that it is there, then nineteen-twentieths of your organization is stable, can be relied upon, if confronted with the prospect of a higher-paid job elsewhere, will think about it, debate it, maybe even try a sample, but in the end come right side up like a weighted toy.

True, there will be turmoil among employees. They may not quit for a glittering war job, but they will chew the rag about it.

"Sam, I've found a new soap that will save us several hundred dollars a year, if you will just change your routine," announced a purchasing agent.

"Bill, don't talk to me about saving money at a time like this!" answered the superintendent. "If we bought that soap, I know a dozen more men would quit."

Looking back less than a year, it will be realized that the turmoil of today, suddenly appearing, would have been catastrophic—but through the months it has been dealt with as it came along, and steps taken to deal with what may be coming.

LOOKING ahead six months, it is realized that what is coming will de-

velop in the same way, a little more turmoil from week to week, but some way found to deal with it, and both management and employees becoming more cooperative and resourceful.

THAT the basic 95 per cent of the organization is always there, to anchor everything, has been shown in the experience of Los Angeles utility companies which, among various ways of recruiting new people, have found that their best source was that basic 95 per cent. Employees have been asked to recommend relatives and friends for hiring. Sometimes it has been necessary to adopt scrap rubber drive methods, and say, "Think over everybody in your family, all the people you know—isn't there a second cousin somewhere, or a girl graduating from high school, who would be a good operator, a good clerk, for us?" The basic 95 per cent does the best recruiting because it can tell the recruit what kind of company it works for—and it also sizes up the recruit as a capable and agreeable member of the company family.

Tough, and getting tougher—but also getting more interesting.

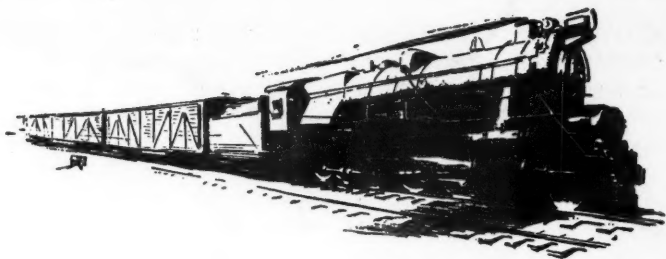
Long after we have forgotten how tough it was, we will remember how interesting were these days.

For Post Bellum Development

AFTER four years' research a Minneapolis dentist, Dr. P. O. Rosendahl, perfected an electric toothbrush which he believes will supplant the hand technique of brushing teeth.

It consists of what appears to be an ordinary toothbrush set in a handle resembling an electric shaver. A motor in the handle operates the brush in the rotary motion approved by dentists. The device can be plugged into any light socket.

Dr. Rosendahl says the invention works more effectively than hand technique because it gives the gums a better massage.



Transportation Comes Through

The rails and other carriers in the war emergency are achieving what many informed persons thought impossible; and out of the lessons learned through this experience United States railroad service will, in the opinion of the author, be revolutionized.

By ANDREW BARNES

WAR-TIME Washington, official and unofficial, even before the occurrence of war, held a healthy fear of one word — bottlenecks. That fear still exists, and the men who manage the defense program are as alert for a bottleneck as they are for new discoveries which may revolutionize, one day, the science of mechanized warfare.

A year ago, when the Atlantic seaboard first became aware of the fact that external war could produce grave internal domestic repercussions and problems, there were fears of a transportation bottleneck. Long hearings were held in government offices, in Congress, and official fears were freely expressed that under the stress of war the American transportation system would slow down, finally bog down completely. Today, those fears have been largely dispelled by experience.

One of the best performances of the entire war effort has been turned in by

the transportation system. Bus lines have managed to meet and handle a tremendous acceleration of traffic. In national defense centers, Detroit, South Bend, Pittsburgh, Baltimore, San Francisco, Philadelphia, the street railway systems, bus lines have reorganized themselves to accommodate the demands of war, and have kept the shifts of thousands and tens of thousands of workers flowing evenly and freely to and from the production centers with only a minimum of delay and inconvenience.

Fully as outstanding as the performance of any segment of the transportation industry has been the performance of the American railroad system. The smoothness, the efficiency with which the railroads are meeting the staggering demands of war-time freight and traffic movements is not fully appreciated by many government officials and seldom is comprehended by the layman.

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TRANSPORTATION COMES THROUGH

A 3,000-mile railroad tour over the Baltimore & Ohio, the Pennsylvania, the Burlington, and other roads is conclusive proof that the railroads are in fact turning in a near miracle of performance.

In an Indiana town, a fast passenger is shunted on to a siding, waits; in a few minutes, almost too close a meeting to be comfortable, a mile-long train of oil tankers thunders past at 70 miles an hour, heading back to the Mid-Continent fields for more fuel for the industrial East.

In an Iowa city, the fast mail is pushed on to a siding, while a trainload of beef steers—meat for Britain, the Fighting French, the Russians—takes the track at 60 miles an hour. A coal train thunders by. Lend-lease goods travel at a tremendous speed for the West coast and Australia.

That the railroads have been able to accomplish the job with their current efficiency is nothing short of a miracle. It is true there have been accidents. An oil train is derailed and burned in Maryland. A freight train is wrecked in Ohio. But, matched against the accelerated speeds required to meet their war-time demand, and matched against the volume of traffic now moving, the surprise is that these accidents have not been more numerous and destructive. More than this, the railroads have zealously guarded against sabotage, and in nearly a year only one real act of apparent sabotage has occurred—when dynamite was exploded at Nodaway, Iowa, beneath the Burlington *Zephyr*, the crack Denver to Chicago streamliner, as it sped over the rails at 70 miles an hour. Even then the damage was small, and no passenger was injured.

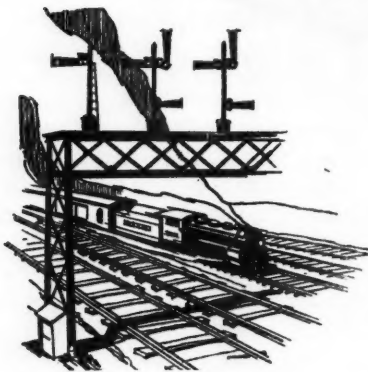
WHAT are the railroads doing?

A year ago, the Secretary of Interior, Honorable Harold L. Ickes, frankly doubted the ability of the rail carriers to move 220,000 barrels of oil a day to the eastern coast. Ickes frankly told a congressional committee that the railroads could do no such thing, when John J. Pelley, president of the Association of American Railroads, assured the committee that the roads were prepared to move oil in that volume. Since then, Mr. Ickes has admitted that the rails and other carriers have achieved what he called "a transportation revolution." Recently, using 1,200 locomotives and 70,000 tank cars, the railroads were shunting into eastern demand centers a surprising, staggering total of 830,820 barrels of oil each day—almost four times the amount that they had originally promised to deliver! How was this miracle accomplished? By operating oil trains, carrying no other freight with the petroleum shipments, giving the oil trains the fastest schedule consistent with safety, and the right of way to maintain that speed.

Unloading time, the "turn-around" period of petroleum trains was shortened, and empties were shunted back to the production centers in solid trains operating on schedules approximating those maintained for the shipment of perishable commodities.

This performance, however, does not begin to tell the entire story of the railroads' war effort. In August, the railroads were loading 870,000 cars of revenue freight each week; some 50,000 cars of grain and grain products; 15,000 cars of livestock; 160,700 cars of coal for factories and domestic heating; 52,000 cars of lumber and

Expanding Job of the Railroads



"THE Army is growing from a 3,500,000-man force to 4,500,000, soon will go to 6,000,000, then possibly to 10,000,000. Each soldier mustered into the service throws 20 tons of additional freight load on the carriers. The expanding production of food for the United Nations will expand the job of the railroads, the need for bigger, faster trains to haul grain and cattle from the agricultural areas into processing and shipping centers."

forest products; 90,000 cars of general merchandise. Concurrently with the increased volume of traffic, the roads had a backlog of 54,754 freight cars waiting for repairs, and 2,669 locomotives waiting their turn in the shops.

THE roads are using, in maintaining their services, some two million cars of all types, and they would like to have the steel and raw materials for the manufacture of 76,000 new freight cars in 1943. Now 76,000 freight cars seem like a tremendous number, but actually it amounts to only a 4 per cent increase in the operating units that the roads are asking to handle the steadily increasing traffic load. The carriers also need 900 new locomotives, and have submitted their recommendations to the Office of Defense Transportation. The carriers have largely drawn into service all their serviceable locomotives, leaving a reserve of only some 500 serviceable engines, in addition to those awaiting overhaul.

In connection with these needs as submitted by the carriers, it is worth while to inspect more closely the job they have been called upon to perform.

According to the Office of Defense Transportation, the carriers are facing the "heaviest movement of revenue freight traffic in history," but have managed to approach this with 200,000 miles of trunk lines virtually clear of congestion. On a single day picked at random recently, 108 reporting railroads sent in figures showing that in a 24-hour period they had dispatched 23,578 trains with 1,408,964 cars.

Passenger traffic has soared beyond all bounds, straining facilities for handling the volume of travel, as gasoline rationing, rubber rationing, and speed controls, as well as rationed airplane travel, have forced more and more persons to adopt rail transportation. Trains leaving Washington, Chicago, Pittsburgh, New York, Baltimore, San Francisco, and other metropolitan centers are jammed to capacity, and every change that can be adopted to increase

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TRANSPORTATION COMES THROUGH

the passenger capacity and speed schedules has been put into operation.

In addition to the doubled and trebled and quadrupled passenger traffic on many roads, the carriers have been required to set a record for the transportation of troops, and that this has been accomplished without major traffic congestion is emphasis of the railroads' performance. The passenger traffic increase is 90 per cent over 1939. At the outset of the war, according to railroad officials, the carriers had 800,000 fewer units of rolling stock than when the United States went to war in April of 1917. In that year, the first nine months after the war, there were a total of 1,916,417 troops moved by rail. For the last nine months, in the present war, there were 6,584,442 soldiers transported by rail. In the last war, a soldier was moved on an average of three times before being transported overseas, and in this war he has six rides before he is finally marched on to a troopship.

The operating speed of the special troop trains has been approximately doubled over the 1917 speed, and Army Services of Supply officials have estimated that shortly the railroads will be transporting 1,000,000 men a month for a total of 700,000,000 passenger miles. These figures tell the story of the railroads' job. They do not tell that the railroads have provided the soldiers better accommodations than during the last war, night Pullman rides and railroad kitchens, compared with day seats and lunch boxes in World War I.

MONTH after month, the carriers have set new performance records: more volume of freight per train, faster schedules, more daily mileage for

locomotives, greater loadings per car, better crating and loading of goods, a higher efficiency for fuel consumed, and over all, a performance approximately twice as good as the performance twenty years ago. This has been done in spite of the fact that steel, copper, and other materials have been channeled into war production, and the railroads themselves, carrying the heaviest burden of traffic they have ever faced, have been forced to operate on lean allowances for the manufacture of new units and the repair and refurbishing of locomotives and cars.

The Army has recognized the performance. Lieutenant General Somervell, chief of the Service of Supply, testifying before a congressional committee, said: "We transmit our demands to the railroad man and he issues the necessary orders. During the hectic days of December, when the strain on them was greater than it has been since, they (the railroads) did a magnificent job." Brigadier General C. P. Gross, chief of Transportation Service, said: "The railroads have had a tremendous job and to date they've done it well." Director of Defense Transportation Joseph B. Eastman says: "Without transportation we could not fight at all . . . It is a pleasure to be able to say that thus far no industry has functioned more admirably in the war effort than the transportation industry."

How have the roads accomplished this job?

Primarily, by unstinted, all-out coöperation with the government, with all of the defense agencies; by reorganization of their own schedules; the pooling of their resources; full coöp-

PUBLIC UTILITIES FORTNIGHTLY

eration in making up and handling trains.

They set up a military transport section for themselves, to coöperate with the Army and Navy, lend-lease, and other agencies in assuring maximum speed in the handling of all government traffic. When the Army wants to move a division of troops, it informs the military transport section; the railroad managers swing into action arranging the passenger and freight cars, tens of hundreds of them, required for the transportation. How and where these trains are to be made up and depart is, of course, regarded as a military secret, and the railroad managers keep that secret. The military transport section works "around the clock" week-in and week-out, arranging for the transportation of the mountainous volume of supplies needed to put an Army on the fighting front with first-class equipment in the volume required for victory.

To handle the oil shipments to the East coast, the rails created a special tank car section to direct this traffic, and its success has been outstanding.

Other freight management groups were set up to process, as it were, the shipment of some 6,000 cars of freight into government camps and construction projects every day.

Besides doing this job, the railroads are, in the shops which they could well

use for replacement of existing equipment, turning out naval gun mounts, tanks, ship winches and drive housings, gears, armor plate, equipment for many types of naval fighting craft, and equipment for the shipbuilding, chemical, and thousands of other types of plants involved in war production.

THE railroads have enlisted all out in the drive to conserve for war production steel, copper, tin, zinc, brass, chromium, and other vital raw materials. They have limited the designs of both passenger and freight cars, changed specifications to substitute wood for steel wherever possible, revised specifications for the manufacture of rails, locomotives, and other equipment, and then, besides conserving, have dumped into the national scrap pile hundreds of thousands of tons of old rail, bars, braces, and other outmoded equipment.

Thus, the railroads find their war performance spread over every item of their operations—salvage, shipment, conservation, production, and whatever any veteran engineer or switchman might imagine.

As well as they have performed their task in the past, the railroads will admit that, in the future, the job is bigger.

The volume of defense production, once a trickle, is now reaching the



Q "ACCORDING to the Office of Defense Transportation, the carriers are facing the 'heaviest movement of revenue freight traffic in history,' but have managed to approach this with 200,000 miles of trunk lines virtually clear of congestion. On a single day picked at random recently, 108 reporting railroads sent in figures showing that in a 24-hour period they had dispatched 23,578 trains with 1,408,964 cars."

TRANSPORTATION COMES THROUGH

proportions of a tidal wave, and the tanks, guns, and equipment from these factories must be loaded and shipped to ports. The Army is growing from a 3,500,000-man force to 4,500,000, soon will go to 6,000,000, then possibly to 10,000,000. Each soldier mustered into the service throws 20 tons of additional freight load on the carriers. The expanding production of food for the United Nations will expand the job of the railroads, the need for bigger,

faster trains to haul grain and cattle from the agricultural areas into processing and shipping centers.

Out of the war, the railroads are getting many lessons. The evidence is that they are making the best of these lessons, that in the future United States railroad transportation will be revolutionized—for faster, more comfortable trains, cheaper service, more accommodations, and a better freight shipment service.



Paying for the War Debts

"SINCE the proceeds of government war loans are expended for destruction, not for production, such loans can only be repaid out of the proceeds of future taxes. They will, therefore, probably be repaid very slowly. The supply of capital required for post-war reconstruction must mainly be obtained from savings made after the war is over. Since there is no reason to suppose that private saving at that time will be easier or greater in amount than in recent years, the rate of interest on long-term investments may be expected to be high.

"High interest rates might be prevented or delayed by one or both of two methods. The first is deliberate abandonment of the system of free enterprise, by having governments assume the responsibility of providing investment capital, which means, of course, government direction and control of all economic activity. This might be done by taxation or forced labor, as under the Russian 5-year plans. A 'phony' system of bookkeeping that refused to recognize any return to capital would be a natural concomitant of such a course, and the rate of interest might not only be kept low but entirely abolished.

"The other method would be that of government deficits financed by means of borrowing from banks or by issues of currency. . . . How long such a system can last no one can say for certain, but two things seem to be obvious: first, that there is a limit to the amount of debt a nation can stand; and, second, that government deficits for pump priming have not yet, after ten years, had the effect that was promised by their advocates, of increasing the yield of taxes to such a point that deficits are no longer necessary."

—RUFUS S. TUCKER,
Economist, General Motors Corporation.



Wire and Wireless Communication

ESSENTIAL telephone and telegraph employees eligible for draft deferment were certified last month by the War Manpower Commission to the Selective Service System. The latter, in turn, issued the list, Occupational Bulletin No. 27, as a recommendation to local draft boards passing on requests for occupational deferment. The list covers communications generally, including (beside telephone and telegraph) radio broadcasting, newsreel, newspapers, television, and repair of facilities. It is a rather "tight" list. It is much briefer with respect to communications employees than the list on which the Board of War Communications was recently reported working. In fact, the timing of the SSS release and the titles used suggest that the BWC list was not even considered as a basis.

Occupational bulletins affecting other utilities are still in preparation at WMC. Current information is to the effect that WMC is working on similar lists with respect to heating, illuminating services, electric and gas utilities, and steam heating. The electric utility list may simply confirm the list issued last June for that particular industry by SSS before WMC came on the job—or some changes might be made in process.

In using these lists draft boards are urged to consider (a) the importance of the particular job; (b) how good the particular man is at his job; (c) the availability of a possible replacement. Only those jobs requiring six months or more

of training and preparation will appear on any of these lists.

The following were listed as some of the critical occupations in communication services: cable engineer; cable-lay-out; cable splicer; cable tester; cameraman, newsreel; combination man, telephone and telegraph; electrician (all around); jackboard operator; lineman, telephone and telegraph; manager, employment and personnel; mechanic, electric maintenance; private-branch-exchange installer; private-branch-exchange repairman; telegraph operator; telegraph-repeater installer; telephone inspector; telephone-plant powerman; telephone station installation supervisor; telephone switchboard repairman; teletype installer; teletype repairman; toll line repairman; toll office repairman; wire chief.

* * * *

CVILIANS, both men and women, are now enrolling at police precinct stations in New York city and elsewhere in the local branch of the War Emergency Radio Service. The idea is to form a short-wave network to function in any war-time emergency if normal communication channels are disrupted. Radio amateurs, repairmen, engineers, and others are joining. Almost any American willing to fill out a questionnaire, be fingerprinted, and pass an easy Federal Communications Commission examination is eligible.

On October 11th Mayor LaGuardia

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WIRE AND WIRELESS COMMUNICATION

(in his "Talk to the People" over WNYC) announced the appointment of former amateur Vincent T. Kenney (WZBGO) of the Bronx as his WERS radio aide. Inquiry here and there since then revealed that the local plan was well under way. New York city, for instance, has received its FCC blanket operating license and the call letters WNYJ.

Borough coördinators have been appointed and many others also have qualified. They will become WERS operators and help prepare the needed equipment from old spare radio parts found at every station. The apparatus thus made or remade eventually will be installed as control centers on public property.

Classes are now being conducted to train applicants in FCC requirements. Enrollments were said to be mounting. Mainly, the training comprises a knowledge of ten questions based on the Radio Act of 1934, the international rules, and FCC regulations. The radio code is not essential.

NATION-WIDE plans for the War Emergency Radio Service are proceeding rapidly, according to the FCC. Twenty-five cities, counties, or other political subdivisions have so far been awarded station licenses for the civil defense program. In addition to New York, the others are Springfield, Vermont; Akron and Piqua, Ohio; Milltown, New Jersey; Coventry and Newport, Rhode Island; Troy, New York; Manchester and Stamford, Connecticut; North Adams, Lowell, and Lawrence, Massachusetts; Cuero, Texas; Lake Charles, Louisiana; Pacific Grove and San Mateo county, California; Haverford and Allentown, Marple and Lower Merion townships, Pennsylvania; Ashland, Kentucky; Baltimore and Baltimore county, Maryland; and the state of Maryland.

Other applications were reported reaching the FCC daily; some twenty or thirty are being considered.

FCC officials said it was impossible to estimate the number of persons required to operate the resultant systems, as this

would depend, for instance, on the number of separate units in each city, township, or state. Varying numbers of radio amateurs are available, but some, because of other employment, can give only certain hours of the day or night to the emergency work.

For the time being only existing or remodeled amateur apparatus can be used as the War Production Board is not granting priorities for the necessary materials to build new stations. The Office of Civilian Defense, however, is anxious that city licensing be given preference as blackout warnings and other emergency notifications may then be relayed over the short-wave circuits.

* * * *

AFTER failing in an effort to prevent the American Federation of Labor Musicians' Union, headed by James Petrillo, from enforcing its ban against the making of phonograph recordings for radio use, Thurman Arnold, assistant attorney general and chief of the antitrust division of the Department of Justice, said in Denver, Colorado, last month that an appeal direct to the United States Supreme Court was being prepared.

A Chicago Federal District Court on October 12th denied the antitrust division's petition for a temporary injunction to restrain the union from carrying out its order, which would affect more than 40 per cent of the programs carried by the radio networks of the country.

Arnold, in Denver on a brief routine visit with James McI. Henderson, chief of the Denver regional antitrust office, and members of his staff, declined to comment on the attack made upon him by members of the American Federation of Labor in their recent convention.

"The Attorney General has said all that needs to be said on that score," he related.

The union had accused Arnold of attempting to make personal capital by his action against the musicians' union. Attorney General Biddle replied that such action, on the contrary, had demonstrated that Arnold was willing to bring

PUBLIC UTILITIES FORTNIGHTLY

actions wherever needed, whether against capital or labor.

Judge John P. Barnes, who recently denied a government plea for an injunction to break the ban ordered by Mr. Petrillo on the making of musical recordings and electrical transcriptions, on October 14th filed a memorandum on his decision in which he suggested that further Department of Justice efforts would be futile.

Judge Barnes had ruled that the government sought the injunction under the wrong statute—the Sherman (anti-trust) Act—and Thurman Arnold indicated that he would make a new move. In his memorandum of October 14th, Judge Barnes said:

This case unquestionably involves or grows out of a dispute. The subject to the dispute is, generally speaking, the question as to whether the members of the union shall be employed to make all the music that is to be made or shall be employed to make only a part of it, the remainder being made by means of phonograph records and electrical transcriptions and by amateur musicians.

In view of the conditions, jurisdiction does not exist to grant any of the injunction relief sought. The court is further of the opinion that the acts complained of are the kind specified in the Clayton Act. Accordingly, the acts complained of may not be considered or held to be violations of any law of the United States.

* * * *

CITING charges which he said "certainly increase the volume of smoke" around activities of the Federal Communications Commission, Representative Wigglesworth, Republican of Massachusetts, asked in the House last month for "a thoroughgoing investigation." Wigglesworth said that "from sources believed to be reliable, it has been my understanding . . . that serious charges were leveled at members or former members of the commission around the first of the year."

These charges, he added, "if substantiated would have shown solicitation by members or past members of the commission from licensees or applicants before the commission in exchange for the promise of influence; charges which,

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if established, would have shown the receipt of remuneration and the apparent effect of remuneration in the action of the commission; charges which if established would have shown the subsequent connection of one or more of those involved with various corporations authorized to engage in or to manage licensees engaged in broadcasting."

Wigglesworth said he understood the commission ordered an inquiry last January and appointed John Farnham of Chicago as special counsel to conduct the investigation. Having heard of no results of the inquiry, Wigglesworth said he asked FCC Chairman James L. Fly about it at hearings on the appropriation bill.

Among the questions he asked Fly, Wigglesworth told the House, were whether Farnham reported that a former commission member had been guilty of "grossly improper" conduct; whether another former member had received "financial gratuities from a licensee or licensees"; and whether a licensee had admitted under oath that he "had mysteriously turned over to his attorney" some \$4,000 worth of government bonds in order to acquire facilities he sought from the commission.

* * * *

LARGELY by making long wires out of discarded short pieces, the New York Telephone Company, as part of its war-time conservation program, is reclaiming annually more than 40,000,000 feet of telephone wire, containing about 106,000 pounds of copper, according to a recent estimate. By welding, splicing, reconditioning, and otherwise conserving the odd lengths, a total of about 7,700 miles of wire is saved—enough to reach two and a half times the distance from New York to San Francisco.

As the result of changes and rearrangements in subscribers' telephone circuits, many millions of feet of short wires of various sizes and types accumulate each year. Before the war the bulk of these "shorts" was sent to smelting plants for processing and manufacture into new wire and other necessities, be-

WIRE AND WIRELESS COMMUNICATION

cause it was uneconomical to reuse short pieces of wire. Now the important consideration is the conservation of critical material, and a large portion of the wire is reconditioned for immediate reuse, thus substantially reducing the requirements for new wire.

About 18,000,000 feet of the New York Telephone Company's reclaimed short wires, with 35,000 pounds of copper content, is wire left over from many changes made in central office connections. For each time a subscriber moves in a central office district, new connections must be made between his outlet on the switchboard and the incoming and outgoing cables. Also many of the short lengths are now graded and kept in racks in the central offices handy for reuse.

The remainder of the accumulated "shorts" come from changes in circuits in or near subscribers' homes and places of business, from "drop" wires and other larger and more heavily insulated types connecting with lines leading to central offices, and from left-over lengths inside buildings. These wires amount to an additional annual saving of about 22,000,000 feet.

At repair shops of the Western Electric Company, manufacturing branch of the Bell system, the smaller sizes of wire are welded in the reconditioning process, while the drop wire and other heavier types are "spliced" by special machinery recently developed.

* * * *

A SERIES of orders was released by the War Production Board on October 17th affecting various communications industries. In Limitation Order L-204 manufacture of telephone sets was ordered to be stopped in thirty days by the Director General for Operations.

The order limits manufacture of the sets to decreasing percentages for a 30-day period. For the first fifteen days following issuance of the order, production is limited to 4 per cent of total factory sales value of telephone sets manufactured in the calendar year 1941. During the second 15-day period immediately following, production is limited to 2 per

cent of the output for the same year. The calendar year 1941 was selected as a base period to represent a normal production year.

Following the 30-day period, the production of telephone sets will be discontinued.

An interpretation of the phrase, "equipment of a superseded type," as applied to telephone and telegraph equipment in Preference Rating Order P-130, amended September 8, 1942, also was issued by the Director General for Operations.

The phrase was employed in subparagraph (a) (7) (i) of the order. According to the interpretation, telephone and telegraph equipment is of a "superseded type," if it is usable in its present state of repair by the operator in a practical manner in his existing plant, and is (a) no longer manufactured or carried by the manufacturer as a regular item for sale, or (b) of such a character that were it not for present or anticipated service requirements, the operator would not place it back into service.

BLANKET ratings for maintenance, repair, and operating supplies and for operating construction of telegraph and cable companies were established on October 17th under a preference rating order approved by the Director General for Operations.

The new order (P-132) incorporates provisions relating to telegraph and cable companies contained in P-129, as amended July 28, 1942, which expired September 30, 1942. It expedites the obtaining of materials necessary to maintain and protect the services formerly permitted under P-129, by raising their rating from A-3 and A-1 to A-1-a.

The order also provides for deliveries of material required for the construction of facilities necessary to serve defense projects bearing a rating of A-1-c or better. The materials and equipment covered by the previous order include a wide variety of items required by the operator of a telegraph or cable system. They include critical materials, such as copper, steel, nickel, tin, rubber, etc.



Financial News and Comment

By OWEN ELY

Utility Stocks Approach Year's Best Levels on Tax Concessions and Election Hopes

As indicated in the chart on page 663, utility stocks have recently rebounded from around the year's low levels and are approaching the high levels of last February. In recent weeks Standard Statistics' two utility stock indexes each advanced about seven points: on a percentage basis, the operating company stocks gained about 14 per cent, and the holding company stocks 25 per cent. Some individual percentage gains have, of course, been much higher. Columbia Gas second preferred, for example, recently advanced from 15½ to 28 (including the dividend), a percentage gain of 83 per cent. In this case the advance was partially due to continuance of the regular dividends.

The improved market sentiment seems largely due to the moderate tax concessions made to the utility industry, embodied in the tax bill recently enacted by Congress and signed by the President. Until the final text of the bill (over 600 pages) is available, however, any accurate appraisal of these concessions is difficult; and, as a current headline says, the measure is so complicated it is confusing even to the experts.

Possibly another background factor in the improved morale of the utility market is the indication of a strong Republican trend in the New York state gubernatorial contest, based on recent polls. While it is doubtful that a Republican governor at Albany would improve the fortunes of the utility companies in that state in any marked degree, nevertheless the Democratic governors of the past

fourteen years or more have been generally antiutility in their viewpoints, and the present Democratic candidate is taking a similar line in his speeches. Fortunately the public service commission has maintained a more or less judicial attitude, though the same can hardly be said for the New York Power Authority.

Some market observers have expressed the opinion that recent buying of better-grade utility equities has been largely of an investment caliber, although, of course, there has also been speculative interest in low-priced issues such as National Power & Light, General Gas & Electric "A," and other "dollar" stocks. Buyers doubtless have either one of two objectives in mind—attractive yields (now that they feel taxes are approaching a "ceiling"), or long pull profit potentialities in holding company issues, which might benefit by dissolution in the next year or so.

SEC Urges Utilities to Retire Debt—but How Can They Do It under Present Rules?

SEC Commissioner Robert H. O'Brien, in an address before the financial section of the American Life convention at Chicago recently, urged the utility companies to devote the income normally available for new construction work—but which cannot be so used because of priorities—to reduce their bonds and preferred stocks, thus strengthening their financial structures. Mr. O'Brien said:

It appears to me that the financial problems facing utilities in war time can be met successfully provided management follows

FINANCIAL NEWS AND COMMENT

prudent financial practices, but the job is largely up to management.

That management which is improvident in its use of available resources will heavily penalize its security holders and its consumers. On the other hand, management which takes advantage of the opportunities open to it will be better prepared to meet whatever conditions the post-war future may bring.

The commissioner speaks easily about the reduction of bonds and preferred stocks, but this does not help the utilities very much to do so. Under the commission's Rule U-42, no registered holding company or its subsidiaries can repurchase or redeem more than 2 per cent of the amount of each class of outstanding indebtedness in any calendar year. Moreover, when the utilities themselves propose to use substantial amounts of cash to repurchase and retire securities, the commission usually takes weeks or months to formulate a reply, and in some recent cases consent has been partial, and grudgingly yielded.

Now that the new tax law apparently permits repurchase of obligations without burdensome income tax liability, wouldn't it be a propitious time for the SEC to reconsider and restate its position regarding debt retirement? Couldn't the 2 per cent figure be liberalized, possibly to 5 per cent or 10 per cent, considering the special opportunities now available to the utilities, and the handicaps which they face if it is necessary to publicize their efforts to repurchase securities by going to the commission for special permission?

Third Avenue Transit Corporation

(Fourth in a series of brief articles on transit companies.)

THIRD Avenue Transit Corporation (until recently known as Third Avenue Railway Company) was incorporated in 1910, succeeding a previous company of similar name in foreclosure proceedings. On July 1st this year the company was merged with six traction subsidiaries, publicly held stock in the

merged companies being exchanged for stock of the consolidated company on a share-for-share basis. Publicly held bonds of predecessor companies remained undisturbed. A number of other traction subsidiaries are wholly owned, with one exception where less than one per cent of the stock is held elsewhere.

The system has 199 route miles of bus lines—divided about evenly between the Bronx and Westchester—and 146 miles of street railways, of which about one-half are in the Bronx and the remainder divided between Manhattan and Westchester.

About two years ago the New York city board of estimate approved an agreement under which busses would be substituted for street cars, over a period of twenty years, on all lines in Manhattan and the Bronx. The new bus lines would have 50-year nonrecapturable franchises, instead of the perpetual franchises held by the street railways. After various court rulings the trustees for the bondholders consented to the substitution of busses, but shortly thereafter the Director of the Office of Defense Transportation prohibited further motorization, because of the program of conserving rubber and gasoline.

CAPITALIZATION consists of about \$45,000,000 bonds and 166,916 shares of common stock (plus a negligible amount of minority stock in controlled companies). While plant and equipment are carried at a net figure of over \$68,000,000, the accruing of some \$16,000,000 unpaid interest on the adjustment mortgage bonds resulted last December in a profit and loss deficit of over \$13,000,000. However, in the recent merger the assigned value of the common stock was reduced to 10 per cent of the former figure, thus putting the surplus figure moderately "in the black."

As of March 31st (*pro forma* merger balance sheet) cash assets nearly equaled current liabilities (which included \$571,000 bank loans). The current ratio was about 1.4 to 1.

The depreciation and amortization re-

PUBLIC UTILITIES FORTNIGHTLY

serve of about \$7,000,000 appears somewhat inadequate, assuming that the gross property account (about \$76,000,000) represents original cost.

Third Avenue appears somewhat overcapitalized based on pre-1942 earning power, and the recent merger might well have included a more thoroughgoing readjustment of the capital structure, though doubtless this would have proved difficult to effect without the aid of a Federal court. Charges on the underlying bonds and the \$18,147,000 first refunding 4s of 1960 (currently around 60) in recent years have been earned about 1.3 times, and about 2 per cent or $2\frac{1}{2}$ per cent has been earned on the \$22,216,000 adjustment income 5s of 1960 (in the twelve months ended June 30, 1942, 2.26 per cent compared with 2.66 in the previous year). However, preliminary earnings for the June quarter showed substantial improvement, net income after all interest amounting to \$72,506, compared with a deficit of \$14,570 last year.

Due to the company's motorization program and the renewed interest in traction securities generally, there has been some speculative activity in the company's income 5s, which currently sell around 21 (this year's range $21\frac{1}{2}$ -12 and last year's 24-11 $\frac{3}{4}$). Interest was paid regularly on the income bonds during the first World War (1913-1917), and payments were again made in 1922-37 (with some small contributions to arrears in the first part of the period). Nothing has been paid now for five and one-half years and total accumulations amount to 76 $\frac{1}{2}$ per cent.

THE common stock, on which nothing has been earned since 1934 (in 1932 \$2.77 was reported), currently sells around $3\frac{1}{4}$ on the Stock Exchange. Based on the preliminary figures for the June quarter, about 44 cents a share was earned on the common in that period, but the huge amount of arrears on the income bonds makes the position of the common seem rather hopeless. When current bank loans have been paid off, however, some payments on the income

bond arrears would seem logical; though it is possible that the company may prefer to clean up the remaining \$2,900,000 underlying debt, and even to buy in some of its own bonds now that the tax bill favors such a policy. Net earnings in recent years have been devoted to the retirement of underlying bonds which have been reduced at the rate of about \$2,000,000 a year since 1937.

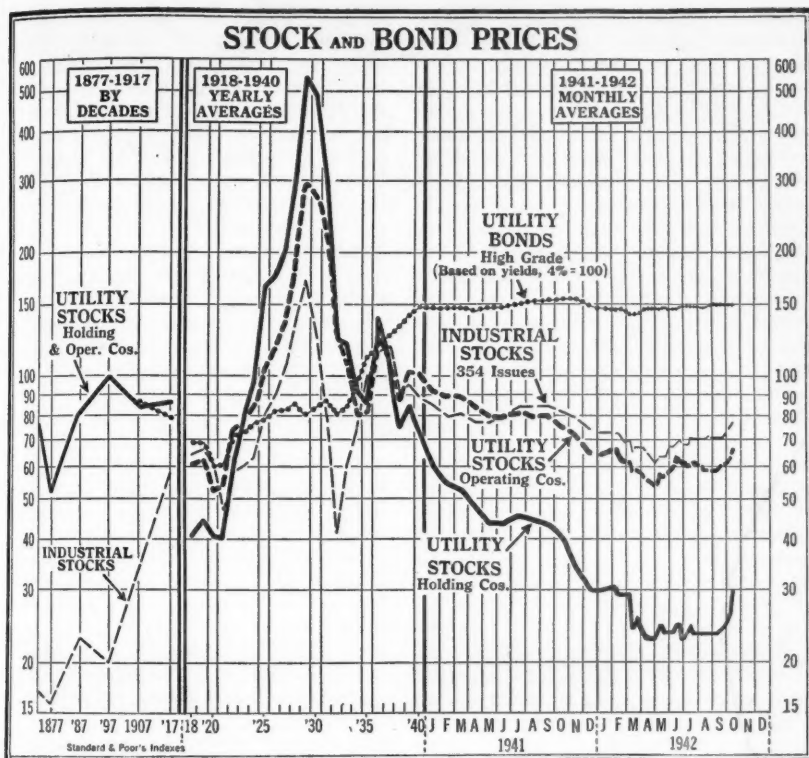
Present wage contracts do not expire until July 1st next year and the present national policy of wage freezing would seem to protect the company somewhat against future union demands.

While New York is not a war production area, gross revenues gained 23 per cent in the June quarter as compared with 1942. Presumably the company is benefiting by the present régime of tire and gasoline rationing, and this may increase somewhat unless the automobile situation is eased. Apparently little difficulty is anticipated with regard to tires and gas for the company's own busses.

New Financing Continues at Low Ebb

DURING September utility offerings accounted for about 80 per cent of all corporate financing, amounting to about \$36,000,000 bonds and \$7,000,000 stocks. This utility financing consisted of the several Southwestern Public Service issues, together with the \$5,000,000 Potomac Electric Power first 3 $\frac{1}{4}$ s and four small private placements. Refunding operations for Central Maine Power, Public Service of New Hampshire, Missouri Valley Gas & Electric, Utah Power & Light, etc., are reported under discussion but have not yet taken tangible form.

Presumably one reason for the paucity of refundings is that institutional funds are largely flowing into government bonds for patriotic motives. The difficulty does not seem to lie with the high-grade utility bond market, for the average yield on high-grade utility issues remains almost pegged around 2.7 per cent (or the equivalent level of 150 in our



accompanying chart). Is it possible that the utilities are diffident about approaching the SEC for permission to refund until the implications of the Jacksonville Gas Case are more clearly understood, or is the investment banking fraternity too busy aiding government bond flotations to devote its energies to utility offerings?

General Gas & Electric Plan

LITTLE has been heard recently of the plan of General Gas & Electric Corporation to sell its two large South Carolina properties to the power authority in that state. The sale agreement was duly signed, but was held up by the local courts, and the legislature failed to pass

remedial legislation before adjournment. The November 3rd elections may have an important bearing on the passage of the necessary enabling act, but it seems unlikely that action will occur until the regular January session. The Federal government has been reported interested in the consummation of the sale, since the two properties naturally supplement the Santee-Cooper hydro project financed by the PWA.

Progress with the General Gas & Electric recapitalization and integration program, long before the SEC, has also been slow. Recently GenGas proposed a new plan for ultimate distribution of assets to security holders. Apparently dubious of the possibilities of completing the sale of the Carolina properties, GenGas now has asked the SEC to approve a merger

PUBLIC UTILITIES FORTNIGHTLY

of the two companies, Lexington Water Power and South Carolina Electric & Gas.

The new company's authorized capital would consist of 150,000 shares of \$50 par preferred stock and 70,000 shares of common stock. GenGas would own 123,776 shares of the preferred and 43,394 shares of the common (the entire outstanding amount). GenGas would then offer to exchange the preferred stock of the consolidated South Carolina Company for its own prior preferred and preferred stocks held by the public (at exchange ratios to be determined in the future).

GenGas owns most of the preferred stock of South Carolina Electric & Gas. In the proposed merger two shares of new 5 per cent preferred would be given for each of the present 6 per cent and 7 per cent preferred shares. GenGas would deliver to the consolidated company for cancellation certain bonds and debentures for which it would receive 50,000 shares of the new preferred and cash for accrued interest. Lexington Water Power has common stock only outstanding (all owned by GenGas) and this stock would be canceled in the merger.

Pennsylvania Power & Light

PENNSYLVANIA Power & Light 4½s of 1974 are currently selling around 97 compared with the year's range of 107½-96; and the 3½s of 1969 at the year's low of 104, compared with the high of 108½. The declines appear to be due to recurring fears of SEC orders for a recapitalization, indicated as a probability by earlier findings of the commission.

The company's rate structure is also considered moderately vulnerable to further cuts, though of course this would have a less adverse effect now than formerly, due to absorption of a substantial part of the lost revenue in Federal taxes.

Judging from past studies of the SEC, a write-off of about \$46,477,000 might prove necessary as compared with the current net property account of \$193,-

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000,000. The revised plant figure would be about \$146,500,000 and total funded debt (\$95,000,000 first 3½s, \$28,500,000 debentures, and \$5,950,000 serial notes) would amount to nearly 90 per cent of this figure. The rate base was tentatively fixed at about \$180,000,000 by the Pennsylvania state commission in 1938, at which time there was a substantial cut in rates, followed by a voluntary cut in March last year.

Interest coverage this year is estimated at about 1.9 compared with 2.2 last year. The company, under an SEC embargo, can pay out only 25 per cent of available net earnings in common dividends.

It is possible that newspaper comments on the recent Federal court decision in the Jacksonville Gas Case, approving a plan for the scaling down of that company's capitalization under SEC auspices, may have something to do with current fears regarding Pennsylvania Power & Light. However, the two pictures do not seem at all comparable. The Jacksonville Company was unable to re-finance maturing obligations, and earnings were inadequate. Considerable stress has been laid on earning power as a basis for valuation in Supreme Court decisions of recent years, and in this respect Pennsylvania Power & Light appears to be in strong position even though rates should be further reduced. Moreover, the present bonded debt received the tentative approval of both the local commission and Washington in 1939 (at which time, however, SEC ideas regarding a 50 per cent "ceiling" on the bonded debt ratio of utility companies had not yet crystallized).

Pennsylvania Power & Light is the largest subsidiary of National Power & Light, in the Electric Bond and Share system.

Brooklyn Union Gas

BROOKLYN Union Gas is currently selling around 9, this year's range being 9½-7. A dividend of 25 cents was payable November 2nd, in addition to a similar amount declared earlier in the

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year, but President Paige has stated that "in no sense should this be regarded as establishing any precedent with respect to amount or frequency of dividends."

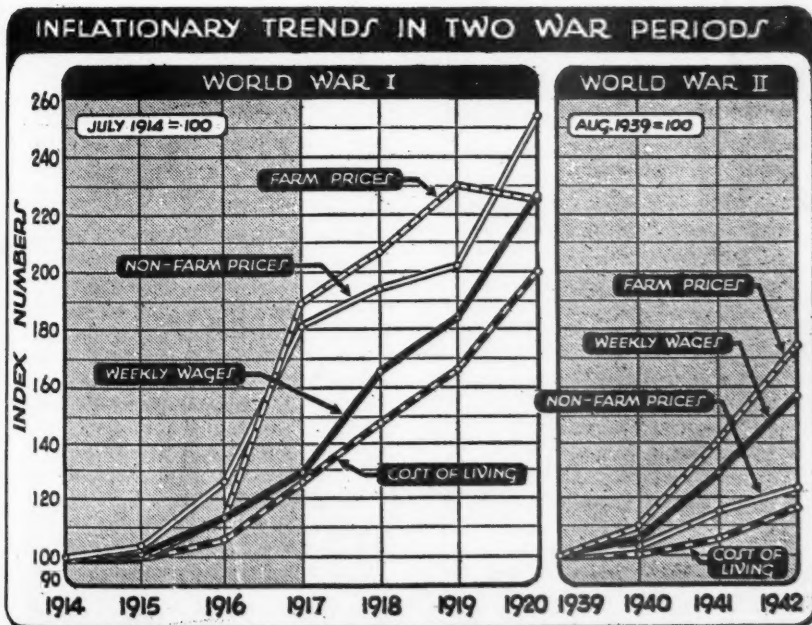
In the first eight months of 1942 earnings of \$1.20 per share were reported compared with \$1.54 in the previous period; for the twelve months ended August, \$1.73 versus \$2.20. In the month of August there was a loss of 11 cents which was due largely to retroactive adjustments, including wages; last year 3 cents was earned in that month. Seasonal factors doubtless contribute to the poor showing for this month.

The company is confronted with important maturities within a few years: \$14,217,000 first consolidated 5s are due in 1945, while other issues mature in 1947, 1950, and 1957. One bond issue bears a 6 per cent coupon and the others 5 per cent, reflecting the company's inability to refund. (Two issues are non-callable.) A general wage increase was granted August 1st by an arbitrator chosen

by the U. S. Department of Labor, and a one-year contract was made with the Transport Workers Union (CIO). The amount of the wage increase was about \$888,000 per annum, an increase of about \$560,000 over the previous "temporary cost of living compensation" allowed to employees. The amount of the net increase is equivalent to about 45 cents a share on the common stock, after deducting the 40 per cent which will presumably be absorbed by Federal taxes.

While fuel costs have advanced, increased values for by-products afford a substantial offset. The company has not benefited in any important degree by war production activities in its area, sales of gas averaging only about 4 per cent over last year. "Bimonthly billing" is being adopted as an economy measure.

The company may, of course, benefit to some extent by the fuel oil shortage in the coming winter, since many homes may use their gas ranges to supplement other heating facilities.



From The New York Times



What Others Think

American Gas Association Meeting



THE twenty-fourth annual meeting of the American Gas Association at Chicago, October 5th, 6th, heard the echoes from a nation at war.

The most serious note was sounded by President George S. Hawley (also president of Bridgeport Gas Light Company, Bridgeport, Connecticut), who reminded his audience that while the world was properly concerned with the "four freedoms" there were others which they and the nation needed also to be prepared to defend. He stated:

We must not forget those freedoms which cover the right to own property, the freedom of enterprise, including freedom of contract. These are what may be called our business freedoms, based upon which America has become the greatest nation of all time, and because of them we were able when this great war emergency arose to forge ahead with titanic strides, almost to the point of the miraculous. These great business freedoms are at stake.

They must be preserved against all odds, and to accomplish this we must prepare and plan now. We may not save all of them, but we will surely save most of them, and perhaps new ways will be developed which may in part compensate for what we may lose.

Nevertheless, he added, everything must now be subordinated to the war and its successful prosecution. He pledged that "We will not fail." However, the association president declared he foresaw acute problems generally in the coming decade, particularly in the gas industry, but added he was hopeful of an eventual solution that would leave a stable industry after adaptation to the new conditions.

FURTHER reminder of present conditions came with the address of Mason Mangum, who formerly served on the Virginia State Corporation Commission,

and has recently been advanced in the War Production Board from other duties to chief of the business contacts branch.

Revealing that the gas industry has on file with the WPB Power Branch projects for pipe lines and new construction requirements aggregating 1,000,000 tons of iron and steel, he added bluntly, "You are not going to get a million tons, because it is not there to get. It is too critical, and needed for our use all over the world."

He added that WPB intends to provide iron and steel needed by the armed forces first, and what is left will go to civilian needs.

"You will get your share," he promised.

Every possible conservation of fuel energy to meet anticipated increased war needs was urged on the gas industry by J. A. Krug, deputy director general for priorities control of WPB.

The increased war requirements will have to be met largely without increased facilities, he conceded, in view of the tightening squeeze of material shortages.

The final quarter of this year and opening quarter of 1943, Krug warned, will be most critical with respect to materials. After that, he said, it was felt the country will be "pretty much over the hump."

He sounded a warning note on occupational deferments from military draft in the industry, and expressed belief that the next year will find girls and women reading meters, doing testing work, and general labor jobs, in addition to all of the office work. He expressed confidence they could fill such positions.

SOMEWHAT similar views marked the talk by another WPB official, Mar-

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tin Bennett, chief of the gas supply section. Conservation along a broad front will be necessary, he told the meeting. This will include utilization of existing natural gas transmission facilities as near the 100 per cent load factor as the limited use of additional critical materials will allow, he continued.

He foresaw the gas companies compelled to adopt the same course as many petroleum companies, and send their customers into the laps of competitors; also, that in some instances, competing companies will have to pool gas supplies.

The meeting heard talks, all indicative of a growing awareness of war conditions, from J. French Robinson, president of East Ohio Gas Company, Cleveland; Alexander Forward, managing director, American Gas Association; Ernest R. Acker, president, Central Hudson Gas & Electric Corporation, Poughkeepsie; Burt R. Bay, president, Northern Natural Gas Company, Omaha; F. W. Sullivan, Jr., technical director of Institute of Gas Technology, Chicago; E. Holley Poe, director, natural gas-gasoline division of the Petroleum Coördinator's Office, Washington, D. C.

ADDRESSING the meeting on "Demand and Supply of Natural Gas after the War," Mr. Robinson conceded the truth of the prophecy that "many things won't be the same as they were before this war." Nevertheless, he contended that there will be no serious or permanent social losses due to this war and that there will also be many lessons learned and many that will be put to use. He stated:

... taking 1941 as our basis, we find one of the present natural gas coördination districts with known reserves of natural gas estimated at 65,000,000,000 cubic feet, or 76 per cent of the total. Another district and across the continent from that one, is a district with 5,000,250,000,000 cubic feet of known reserve natural gas supply, or 6 per cent of the total. Yet the former district, with 76 per cent of the known national reserve supply, in 1941 utilized only 1,000,300,000,000 cubic feet, or 46 per cent of the total annual consumption, while the latter district, with only 6 per cent of the known national

reserve, utilized 500,000,000,000 cubic feet, or 18 per cent of the national total. The answer to this problem is arithmetically and instantaneously reduced to geographical terms, and these are simple terms of transportation.

All boiled down, natural gas requirements after the war will make still more acute the problem of balancing supply and demand geographically. The machinery for this, luckily, already exists and will have been improved and perfected in the ease and speed with which it functions. Experience is doing that now. It is obvious, also, that the successful integration of our industry with other industries effecting the mutual exchange of critical materials needed will also be retained as a profitable lesson taught by this war.

The post-war abundance of materials which he anticipated, he said, will enable the country to realize the potential values of natural gas as never before, and supplies and requirements will also be better balanced within the several districts themselves. Predicting that the solution of the problem of seasonal balances will be sought by new methods, as well as better use of present methods, Mr. Robinson pointed out:

We can look forward also to an increasing insistence upon the education and guidance of our consumers in the general utilization of gas not alone for the purpose of greater customer satisfaction in such use, but for economical and, hence, gas conservation purposes as well. This will amount, I believe, in time to a systematic control, through education, of the ways in which natural gas is to be used.

Now, I think, we are compelled to enlarge our vision of natural gas requirements, and predict that after the war the advantages of natural gas as the perfect fuel will not be so simply calculated in terms of present or past localities of utilization. It is true that the requirements of those communities which have been built up around natural gas as a fuel will continue to increase and be met by an improved system of national distribution patterned after the present coördination plan. But it is also probable enough to demand inclusion in any post-war consideration that the advantages of natural gas will be extended to new communities, new markets, new forms of utilization. House heating with gas had only begun to strike its stride when this war befell us. Our people in America will never give up this priceless advancement in living. There is no reason why they should. Everything was arrested by this war, to be sure, but to assume that everything will stay at the point of suspended development where it was when war

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found it is nonsense, unless "our way of life" is to be regarded as just another slogan, and "freedom" written down to merely a choice between governments. People, I think, will continue to be people, and things will always remain things.

DISCUSSING the effect of the war in depletion of the country's national reserves of all resources, Mr. Robinson declared that "gas can be no exception." He continued:

Both supply and requirements of natural gas will, however, be vitally affected by this war through the enforced practices of conservation, in every single phase of the industry, from production clear through to increased efficiencies of utilization. The nation will never recover from the terrific impact on our material resources which this war is causing. All we can do is to carefully husband what is left us. Intensification of all research and engineering and educational effort for conservation all along the line must be included in any consideration of post-war requirements and supply. The three are inseparable. By conservation I mean economical and wise use of natural gas, and this again heads up into a system of centralized authority and coordinated industrial efforts. Indeed, without intensive conservation effort on the part of all of us, the time will soon come when there will not be any natural gas industry, not even for war.

Holding that the future promises to the nation's suppliers of natural gas a period of intensified use and an improved method of transportation by which the advantages of natural gas can be extended to more people, Mr. Robinson also predicted an era of intensive competition between gas and other fuels and forms of heat, from which he did not exclude even the sun.

The latter reference was to experiments in use of the sun's heat for practical purposes. "Competitively, even at the best it is no bed of roses to which we can look forward," Mr. Robinson added.

Injecting what he termed his "only note of optimism," he said, "We can and will poke enough of a hole in the clouds to see at least where we are if not where we are going."

MANUFACTURED and natural gas utility sales for July increased sharply over the corresponding month of 1941,

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the meeting was told—amounting to 30,382,800,000 cubic feet, an increase of 9.1 per cent over July, 1941. Industrial sales registered a gain of 17.4 per cent; residential sales 7.3 per cent; and sales for commercial use 2.4 per cent.

Natural gas sales totaled in July, 1942, 119,939,500,000 cubic feet, an increase of 8.9 per cent over last year. Sales for residential use increased 10.5 per cent, commercial sales 20 per cent, and for residential purposes, including amounts used in generating electric power in public utility steam plants, 7.5 per cent. Manufactured and natural gas utilities were serving a total of 18,849,600 customers on July 1, 1942.

THE war emphasis continued through numerous reports by technical and industry committees at the meeting. In his report on activities of the association's Washington office, George W. Bean, director of that office, revealed that 1,050 PD-1A applications have been expedited at Washington, not including a large number which it was unnecessary to process, in addition to obtaining necessary allocations of materials through direct contact with the appropriate branches. He also pointed out that, large as the volume of this work was in the past year, it was only a minor phase of such service, as it is frequently necessary to conduct extensive follow-through operations.

The report on industrial and commercial gas national advertising, made by J. P. Leinroth, of Public Service Electric & Gas Company, Newark, New Jersey, was in the same vein.

Industrial and commercial advertising has been closely tied in with the defense and war program, he pointed out. As early as September, 1940, the character of the industry's advertising was changed to conform to the defense program, initially; and after Pearl Harbor, a new series of advertisements was designed to capitalize on the important position of industrial gas in the nation's war program—to build good will and prestige for gas which would be useful and helpful in the post-war period.

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"SERGEANT, HOW MANY TIMES MUST I TELL YOU WPB GAS LIMITATION ORDERS DO NOT APPLY TO THE ARMY!"

THE report on metal treating and melting, made by Robert C. LeMay, chairman of Subcommittee No. 1 and a member of the Connecticut Light & Power Company, Waterbury, Connecticut, dealt with the use of industrial gas in the war effort to an important extent.

Chairman LeMay reported that while the war has been directly responsible for the increased demand for industrial fuels, generally, gas has assumed high rank among fuels purchased—particularly for metal treating—because for many years preceding the war industrial gas representatives and equipment manufacturers continually demonstrated in American factories that gas would do a superior job at reasonable cost.

The report by C. George Segeler, American Gas Association, chairman of the committee on heat treatment of aluminum and magnesium and their alloys, went further into this phase of gas use. It dealt generally with the best methods of heat treating, and summarized important material bearing on this subject for use of industrial gas engineers.

The committee on the annual American Gas Association Gas Engine Power Census, headed by G. R. Walton of United Gas Pipe Line Company, Houston, Texas, observed that with 49 natural gas companies reporting at the beginning of 1942, there were 4,452 gas engine accounts, compared with 4,234 for

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1941; the number of engines in operation rose 5.2 per cent from the beginning of 1941 to the beginning of 1942: respectively, 7,905 compared to 8,316, with a total horsepower increase of 8.6 per cent reported. The report stressed that a number of the more recent engine accounts are in war production plants, and anticipated that still more gas-driven power will be utilized in war production as the tempo increases.

THE Laboratories Managing Committee, of which George E. Whitwell, Philadelphia Electric Company, is chairman, reported that the trend beginning more than a year ago has continued increasingly in the direction of meeting demands of all-out war. During the greater part of the calendar year 1941, the report stated, testing operations were devoted principally to approval of equipment necessitated by the then defense program, which is now a full-fledged war effort.

Sudden changes in the industry as a result of the war have had a violent effect on the manufacture of gas appliances and equipment, as well as on distribution channels. H. M. Woolman, Jr., Jersey Central Power & Light Company, Asbury Park, New Jersey, chairman of AGA Food Service Equipment Committee, reported.

"The shrinkage of volume for civilian use as compared with government business has in practically every case disrupted manufacturers' sales forces until they exist only in skeleton form," Chairman Woolman stated. "Dealers and distributors' sales organizations have been similarly affected."

Gas air conditioning has attained notable acceptance in 1942 and is ready for expansion. L. Ourusoff, Washington Gas Light Company, Washington, D. C., chairman of the joint committee on gas summer air conditioning, reported. He pointed out that the effects of war on the budding gas air-conditioning industry have been evident in a flourishing business for manufacturers of de-

humidifying equipment through voluminous sales to war industries and a growing dependence by industry on such apparatus.

THE report of the committee on operation of public utility motor vehicles, by Jean Y. Ray, Virginia Electric & Power Company, Richmond, Virginia, chairman, was a symposium on problems under this heading. Likewise, it revealed strikingly the effects of the current war situation. It was pointed out that under the circumstances it was felt that the interests of the gas industry and all other public utilities could best be served if the committee membership devoted its efforts to working with various groups set up by government agencies controlling the manufacture, sale, and operation of motor vehicles, accessories, and fuel and postponed temporarily other activities. The chairman also stressed that it had been deemed advisable during the year to cooperate with other public utilities outside of the gas industry, because of the tendency of government agencies in charge of transportation matters to group all types of public utilities under one classification. Other phases of this report dealt with adjustment of engines for war-time fuel and truck operation under present conditions.

A series of technical reports dealt with gas production, distribution, gas conditioning, and chemical analyses and tests. They were made, respectively, by the following chairmen: R. H. Arndt, Consolidated Gas, Electric Light & Power Company, Baltimore; C. S. Goldsmith, Brooklyn Union Gas Company, Brooklyn; H. D. Lehman, Philadelphia Gas Works Company, Philadelphia; and R. J. Sheridan, Brooklyn Union Gas Company.

J. H. Collins, New Orleans Public Service Inc., New Orleans, chairman of the subcommittee on meters and metering, and Ohmer Ullery, Ohio Fuel Gas Company, Columbus, chairman of subcommittee on publicity to customers on meter reading, also submitted reports.

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U. S. Chamber Sees Post-war Demand for Appliances

A VAST, immediate post-war consumer demand ranging from 2,100,000 automobiles to 900,000 electric irons—and a personal savings program to help finance it—was disclosed recently by a nation-wide survey of family needs within the first six months after the end of hostilities.

These and scores of other definite indications came from a scientific sampling of estimated needs of thousands of families throughout the United States, obtained by personal interviews for the Chamber of Commerce of the United States.

The chamber consumer survey, now completed, shows that there will be a demand for 1,500,000 mechanical refrigerators, 1,200,000 washing machines, 1,200,000 radios, and 600,000 sewing machines. More than 1,200,000 families will want to buy living room furniture, bedroom furniture, or rugs, carpets, and linoleum.

About 3.4 out of every 10 home owners would make repairs and improvements in their homes within six months after the war, with 17 per cent planning to paint the outside; 7 per cent expecting to put on a new roof; and 6 per cent hoping to redecorate the interior. Six out of every 10 farmers who own their own farms would do these things in the first six months: build or repair new out-buildings, barns, fences, tenant houses.

Eric A. Johnston, chamber president, said that while the first job of business is to win the war as quickly as possible, "we must not overlook the fact that when peace comes we shall have to turn to the everyday task of supplying the nation's accumulated wants and in doing so furnish jobs for the millions who will be released from the armed services and from war production." He continued:

The nation-wide survey will be kept up to date currently, to furnish government and industry with facts on post-war consumer needs and potential purchasing power, together with the time and requirements for reconversion

of industry to meet the demands of a renewal of peace-time production.

The survey is divided in two phases—consumer research and specific industrial research. The post-war consumer market analysis will be translated into terms of raw materials, plant capacity, machine tools, and labor required to meet the demands of consumers.

To finance consumer-planned purchases, 56 per cent of the families said they were able to save at the present time—29 per cent are laying away 8 per cent or more of their monthly income, and 35 per cent are planning to have an accumulated annual saving of 10 per cent or more. Fifty-nine per cent of the families are putting money into war bonds and stamps; 50 per cent are using life insurance; 16 per cent savings accounts; 16 per cent are paying off mortgages; and 10 per cent are channeling their funds into other savings or investments. Nineteen per cent are saving for a specific post-war purchase.

"Despite the evidence that many people intend to make extensive major purchases immediately after the war, most people are not—on the basis of present saving—counting on buying these things for cash," the chamber said it had found. "The American habit of instalment buying will continue to be a major factor in large consumer purchases."

About half of the present consumers think there will be plenty of jobs, while 38 per cent believe there will be serious unemployment. Seventeen per cent believe that the country's factories will be able to supply people with all the things they want to buy within six months after the war, but the rest believe it will take more time.

THE careful sampling of the nation's families, and families alone, indicates that 900,000 families intend to build or buy a new house within six months after the war is over:

33 per cent would pay \$3,000 for the house

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26 per cent would pay \$3,000 to \$5,000 for the house

24 per cent would pay \$5,000 to \$10,000 for the house

7 per cent would pay more than \$10,000

10 per cent are uncertain what they would pay.

In all, an expenditure of about \$5,000,000,000 is indicated.

On the question of consumer post-war purchasing power, 30 per cent of the

families interviewed said they were better off than before the war; 27 per cent said they were worse off than before the war; and 43 per cent saw no change.

But 37 per cent of the families said they had more money to spend for things other than food, shelter, and clothes than they had two or three years ago; 34 per cent said they had less money to spend; and 29 per cent said they had about the same.

Annual Report of the Board of Transportation-Research

THE Board of Investigation and Research-Transportation recently submitted its annual report of the first year of its activities to the President and the Congress.

The act creating the board directed it to investigate the relative economy and fitness of railroad, motor, and water carriers to determine the service for which each is especially fitted; the amount of public aids granted them; the extent of taxes imposed upon them; and other matters which the board deems important toward developing a national transportation system adequate to meet the needs of commerce, the postal service, and national defense.

Activities of the board during its first year include investigation of the flow of traffic; cost and efficiency of transportation services; public aids received and taxes paid by carriers; labor relationships; shipper-carrier relationships; regulatory practices; and interterritorial freight rates.

The report shows that in 1939, 600,000,000 ton miles of traffic were hauled by domestic carriers, of which 58 per cent moved by railroad, 11 per cent by pipe line, 9 per cent by highway, and 22 per cent by inland and intercoastal water carriers.

COMMENT is made on the 130,000,000 acres of land granted by the Federal government and 49,000,000 acres

granted by state and local governments to the railroads, and on Federal expenditures on waterways, which, up to June 30, 1940, amounted to nearly \$2,000,000,000. During the period 1921-1940 about \$39,000,000,000 of public funds were spent on roads and streets. Taxes paid by carriers in 1941 alone amounted to more than \$3,000,000,000, of which over \$2,000,000,000 was paid by motor carriers, nearly \$600,000,000 by railroads, and the balance by water, pipe line, and air carriers.

The board states that a full report, with findings and recommendations on the interterritorial rate structure, will be filed in January, 1943, and findings on public aids and taxation will be filed during the fiscal year of 1943.

The board said the apparent surplus of transportation was turned into a transportation shortage by the war emergency, but pointed out that the old problems of oversupply and destructive competition will probably return in intensified form after the war unless constructive policies are adopted. The report states that, although all forms of transportation are now regulated with a view to protecting the public from excessive and discriminatory charges and providing adequate carrier services and revenues, carriers and shippers continue to complain of unfair and unequal treatment.

The board's investigations of interterritorial freight rates will undertake to

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"HONORABLE SPY COMRADE TAPPED A TROLLEY WIRE BY MISTAKE FOR A TELEPHONE WIRE AND FUSED HIS BRIDGEWORK"

point out the economic effect of freight rate levels which the South and the West complain have retarded the development of their regions, forcing industries to locate in the East and along the seacoasts, Great Lakes, and other waterways in order to get the benefit of lower transportation charges.

Greater use of modern facilities and methods, coordination and unification of transportation agencies, and the organization of "transportation companies," in which rail, highway, and water services would be combined, are among the proposed methods which the board is investigating for improving service and eliminating harmful competition.

THE board was organized a year ago as an independent Federal agency under the provisions of the Transportation Act of 1940. The President, on June 26, 1942, extended the life of the board to its statutory limit, September 18, 1944, in a proclamation declaring that "the national interest requires the development of informed policies by which an efficient transportation system essential to the nation in peace and in war may be promoted, strengthened, and maintained."

Nelson Lee Smith, of New Hampshire, Robert E. Webb, of Kentucky, and C. E. Childe, of Nebraska, are the members of the board.

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Post-war Power Markets

CONCERN by utilities over surplus post-war power production should be largely absorbed by many private industries which now produce their own power, a spokesman for General Electric Company, recently quoted by *The Journal of Commerce*, stated. Many of those concerns will find it cheaper to buy their power from their local utility company, he said.

Private industries which generate their own current are now working their plants at capacity in their prosecution of the war, with the result that their power plants are being subjected to unusual wear and tear. Another contributing factor is inability, in many instances, to make proper replacements under war-time restrictions. When the war ends they will be faced with the necessity of replacing much, if not all, of their power from their local utility.

During the war many revolutionary manufacturing processes have been developed, including a change-over in the production of turbines and other power plant equipment from a "custom-built" to a mass production basis.

Another new departure, the GE spokesman said, was the standardization of generating equipment and replacement parts. Mass production and stand-

ardization, he said, have cut the costs to the lowest levels in history.

These factors should contribute toward lower power costs by utilities. It is such lower power costs, contrasted with the alternative of private industrial concerns to either install all new power plant equipment or else have "custom-built" replacements made at high costs, that will probably cause many private industries to abandon their own power plants and rely upon the utilities for their electrical energy.

THE standardization of electric power equipment will eliminate much waste now prevalent in upkeep through the inability of utilities to obtain ready-made replacement parts. It does not pay them, under the present equipment manufacturing set-up, to replace certain parts.

General Electric Company already is talking standardization to the utilities, pointing out the tremendous industry-wide advantages through the adoption of "in stock" or standard equipment. As a result, by the time the war ends, some utilities may be operating with standard equipment, giving them an edge over those still using specially made machinery.

The 1942 Tax Bill and the Utilities

ALTHOUGH the 1942 war tax bill recently signed by President Roosevelt imposes the greatest tax burden in the history of the nation on business and individuals, its passage was marked by a certain measure of recognition of the financial problems of public utility companies.

Utilities, in common with other corporations, are required to pay the sharp increases in corporate income tax. However, this increase is not so much as the administration wanted. The Treasury first proposed a combined corporation

normal and surtax of 55 per cent (it was 31 per cent for 1941 taxes) and a 90 per cent excess profits tax. Congress finally adopted a Senate version of the bill, which enacted a combined normal and surtax of 40 per cent and a 90 per cent excess profits tax rate.

Congress also put into the bill certain relief provisions to cushion the corporate income tax levy. Thus, there is an 80 per cent ceiling placed on effective corporation taxes which should help companies with extremely high excess profits in relation to other capital or past earn-

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ings. There is also a post-war credit, amounting to 10 per cent of excess profits taxes paid. This credit will be in the form of a noninterest-bearing government security which will be non-negotiable until after the war.

Companies are allowed to take 40 per cent of their debt repayments as a deduction from excess profits taxes and an offset against the post-war credit. The eventual proceeds from the redemption of post-war credit bonds will be nontaxable.

THE most specific relief for public utility companies, however, was the provision allowing exemption of dividends on preferred stock of utilities from the 16 per cent surtax.

The deduction is allowed for utilities furnishing telephone, gas, electric, and water service—provided their rates are fixed by government regulation. Deduction is applicable to taxable year beginning after December 31, 1941, regardless of whether the particular company follows a calendar or fiscal year. Dividends on preferred stock of holding companies which also are operating utility companies are probably qualified for the surtax exemption. The exemption applies, however, only to dividends on such stock as was issued before October 1, 1942, and which called for limited cumulative dividends payable ahead of other stock. The voting or nonvoting character of the preferred stock does not affect application of the deduction.

With the exception of an increase in

excise tax on telephone and telegraph bills, there were no new excise taxes affecting utilities contained in the 1942 legislation. The telephone excise was changed in the final tax bill (from earlier provisions) in the following manner: The tax on monthly telephone bills (payable by the subscriber) was increased from 6 per cent to 10 per cent. Long-distance calls in excess of 24 cents were taxed 20 per cent ad valorem. A "catch-all" tax on bills for miscellaneous telephone services probably results in placing toll calls of less than 25 cents also under a 10 per cent tax. Local calls (less than 25 cents) from public pay stations are generally exempt from the excise.

Of special interest to the public utility industry was the action of the conferees in eliminating a Senate-approved provision to exempt from Federal taxation certain nonprofit corporations established to promote the spread of public ownership. This provision, sponsored by Senator LaFollette of Wisconsin, would have extended the tax exemption now enjoyed by municipal and other government securities to certain corporations formed upon petition of 10 per cent of voters in the service area of utility properties to be acquired from private company ownership.

The exemption would have required the eventual turning over of such properties by the nonprofit corporation to formal public operation upon the retirement or liquidation of the corporation's securities. As finally enacted, the 1942 bill deleted this provision completely.

Notes on Recent Publications

THE THEORY AND PRACTICE OF JOB RATING. By M. F. Stigers and E. G. Reed. The McGraw-Hill Book Company, New York, N. Y. Price \$1.75. 154 pp. 1942.

Noteworthy for its original and unusually factual approach to job rating, this book offers an accurate, practical means for measuring every job element—including the intangibles heretofore considered unmeasurable.

The fundamentals and philosophy underlying the subject are explained; a scientific technique for the actual evaluation work

is given; and questionnaires, rating scales, a cross comparison procedure, and pertinent data plus full instructions are provided.

THE BOULDER CANYON PROJECT: HISTORICAL AND ECONOMIC ASPECTS. By Paul L. Klingsorge. Stanford University Press, Stanford University, California. 1941. Pp. xiv, 330. Price \$3.50.

AMERICAN RAILROADS IN WAR TIME. By Thor Hultgren. *Political Science Quarterly*. September, 1942.



The March of Events

President Seeks Cheaper Power For War Plants

It is reliably reported that President Roosevelt recently wrote a letter to various war agencies suggesting that war plants might bargain directly with power producers for cheaper electric supply. It was intimated that the Federal Power Commission, exercising its emergency authority over interconnections, might fix the terms whereby such power might be delivered over intervening transmission facilities, regardless of ownership.

Revelation of this communication raised some question as to whether it would have any effect on the War Production Board's control over the mobilization of the nation's power supply.

It appeared, however, that President Roosevelt's letter was primarily a suggestion subject to counter proposal. Officials of the WPB, Army, Navy, and Maritime Commission were said to have privately expressed considerable doubt that the President intended to have his suggestions interpreted in such a way as to disrupt the integrated power pools which have been planned by the War Production Board Power Branch.

In any event, the War Production Board's approval would be necessary for the allocation of any critical materials needed to install interconnecting facilities even after authorization by the FPC.

A rather conservative appraisal of the development, therefore, suggested that the White House proposal would be applied only in such exceptional circumstances where it would not seriously conflict with the WPB's present integrated power supply set-up. It was pointed out that there are probably few power supply areas where transmission and distribution facilities are not already heavily committed to important war supply functions.

Supreme Court Refuses to Ban Trial

THE United States Supreme Court on October 19th denied a Justice Department request that Appalachian Electric Power Company be required, without a trial in the Western Virginia Federal District Court, to accept a 1942 license from the Federal Power Commission to regulate operation of a hydroelec-

tric project on the New river, near Radford, Virginia.

The Justice Department contended a trial would interfere with waging the war.

In a December 16, 1940, decision, the Supreme Court ruled that the project was subject to regulation by the Federal Power Commission. The Federal District Court was directed to enjoin the company from operating the project except under a license "substantially in the form" tendered by the Federal commission in 1931.

The new litigation resulted from the refusal of the company to accept a license tendered by the commission in 1942. The company contended the new license differed considerably from the one offered in 1931, while the commission asserted that they were substantially the same.

Asking the Supreme Court to construe its 1940 decision to require the acceptance of the new license, Solicitor General Charles Fahy contended that a trial would "impose a substantial burden" on the government and impede the war effort.

Ordered to Use Less Scarce Materials

THE War Production Board on October 10th ordered a 40 per cent cut in the amount of copper, steel, and other scarce metals that public utilities may use for maintenance and repair of transmission and distribution systems during the last three months of this year.

A 40 per cent reduction also was ordered in the allowances of stock of these metals they may keep on hand in anticipation of needs for that period.

Heretofore the public utilities have been permitted to use amounts similar to what they used in a corresponding period in 1940.

Electric utilities were further required in the order to make at least 75 per cent of their wire, cable, and bus bar purchases from the inventories of other utilities rather than from manufacturers, and gas and water utilities were required to get at least 40 per cent of their pipe and similar supplies from inventories of like utilities.

The new order, P-46, provides substantially higher ratings for such materials as will be allowed. All A-2 ratings have been raised to AA-5. A special rating, AA-2X, has been as-

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signed to deliveries of materials to repair actual breakdowns.

Gas Export Approved

THE Federal Power Commission on October 16th announced its order authorizing the Border Pipe Line Company of Houston, Texas, and the American Smelting & Refining Company of New York, to export natural gas produced in the San Salvador gas field in Hidalgo county, Texas, for use by the smelting company in its zinc smelter at Rosita, Coahuila, Mexico.

The authorization is for five years or for the duration of the war, whichever is greater. According to the Border Company's application, the American Company requirements are estimated to be 10,000,000 feet per day.

EHFA Disbanded

A PRESIDENTIAL executive order on October 13th ended the life of the Electric Home and Farm Authority, Federal agency established in 1935 to finance the distribution and sale of electric and gas appliances, primarily in rural areas.

President Roosevelt told a press conference that production of appliances had been so restricted by the war that this financing was no longer needed and no more loans would be made.

Consequently, he said, the remaining functions of the agency are being turned over to the Reconstruction Finance Corporation for liquidation.

FPC Waives Power Connection Policy

THE Federal Power Commission on October 16th announced a policy of waiving jurisdiction over intrastate power companies that tie in their lines with interstate utilities in order to increase power supplies needed by war industries.

Leland Olds, chairman, said the position was taken "to encourage interconnections and improve the use of electric facilities wherever needed to increase war production."

The policy was stated in an announcement that the commission had ruled that interconnection of the Texas Power & Light Company's lines with the Southwestern Gas & Electric Company would not establish the former concern as an interstate utility.

The purpose of the connection, the commission said, was to get Texas Power & Light into the "Southwestern power pool" in which several companies are linked to furnish power to the Defense Plant Corporation's aluminum plant at Lake Catherine, Arkansas.

The commission's waiver of jurisdiction, to last for the duration, was granted under the emergency authority it holds, the FPC said.

SEC Suspends Hearings

THE "death sentence" proceedings against Niagara Hudson Power Corporation were suspended for one month on October 16th by a trial examiner of the Securities and Exchange Commission after counsel for the commission had concluded introduction of exhibits against the holding company's system.

Richard C. Townsend granted a motion by counsel for the company that the delay be granted to enable the respondents to prepare their case and to gather material requested by the utilities division of the SEC.

Mr. Townsend directed that the proceedings be held in abeyance until November 16th, but indicated that he would countenance no further delays. Harry C. Slater, of counsel for the utilities division, did not oppose the delay.

High Court Grants Review

THE United States Supreme Court on October 12th granted a petition to review a Federal Power Commission ruling that an electric power company, doing business within a state but having power connections with another utility which is connected beyond the state, is subject to Federal regulation.

The question arose over the acquisition by the New Jersey Power & Light Company of 341,350 shares of common stock of Jersey Central Power & Light Company. FPC rules forbid the acquisition by one public utility of stock of another without express authorization from the commission.

Jersey Central Power contended that it is subject to regulation by the New Jersey Board of Public Utility Commissioners and consequently the FPC cannot control it due to an express provision of Federal statute.

It further contended that it is not a public utility within the meaning of the act because it does no business beyond the state. It is, however, connected with the New Jersey Power & Light Company, which, in turn, is connected with a New York concern. The FPC held this sufficient to bring it within its purview. The third circuit court of appeals upheld this ruling.

Attorney General Francis A. Pallotti, of Connecticut, requested the Supreme Court to review the decision, stating that the public utilities commission of his state and several of the power companies desired an authoritative ruling on the question.

Utility Fights Tax Basis

THE Duke Power Company, a public utility operating in the Carolinas and maintaining a registered office in New Jersey, recently contended its intangible property such as stocks and bonds and money in banks is not taxable in the state of New Jersey and has asked the state supreme court to void a \$11,-

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604,815 assessment for 1939 taxing purposes.

A boost in the assessment to \$20,756,096 is sought by Hillsborough Township, Somerset county, where the company had its registered office at that time. The state board of tax appeals reduced the assessment to \$11,604,315 on appeal. Previously, the Somerset County Tax Board had fixed a valuation of \$21,953,125.

The state supreme court, which has power to set a new assessment figure, if necessary, or to scrap the assessment entirely, on October 7th reserved decision on the case.

Seaway Favored after War

PRESIDENT Roosevelt made it clear last month that his abandonment of the St. Lawrence seaway and power project was purely temporary, because of war-produced steel and man power shortages. He expressed confidence that the project will be completed to provide a water route from the Atlantic to the Great Lakes after the United Nations win the war.

The question was raised at the President's press conference by a reporter who said that completion of the project had become an issue in the campaign between Attorney General John J. Bennett, Democrat, and Thomas E. Dewey, Republican, for governor of New York.

The President thanked the reporter for his recital of background, including speeches by both Attorney General Bennett and Mr. Dewey, but pointed out that the background was purely political, and that he had long ago ceased to regard the subject as a political matter between two parties or two regions.

Court Reinstates Suit

THE United States Circuit Court of Appeals recently reinstated the suit of three stockholders against seven officers and directors of the Missouri-Kansas Pipeline Com-

pany, a holding company, alleging that over \$1,000,000 of Moka's money was "wasted" in exorbitant lawyer and engineering fees and other expenditures.

The case was referred back to the Federal District Court of Delaware which was directed to permit the examination of the company's books and the subpoenaing of the officers and directors involved, in order to ascertain the details of the case.

Among the questions raised by the stockholders is why the officers and directors paid \$44.50 a share for 15,149 additional shares of Panhandle Eastern Pipe Line Company when they were authorized to pay only \$25 a share by the stockholders; and why \$251,000 was spent in litigation to force the Columbia Oil & Gasoline Company to divest itself of its holdings of Panhandle Eastern Pipe Line Company when only the Federal government could take such action, which it later did.

Told to Cut School Bus Schedules

JOSEPH B. Eastman, Director of Defense Transportation, last month called for a revision of school bus schedules "on the assumption that the physically able child can walk two miles to and from school, where weather conditions permit."

Mr. Eastman gave assurance that the 4,000,000 American girls and boys who must ride school busses will continue to get to their classes this winter, but he declared that "school districts everywhere should survey their bus service at once to determine where curtailments may be made."

He called for elimination of school bus service where rail or regular public bus service is available and for reduction in the number of bus stops by having children living on side roads meet their busses on the main highways.

Arkansas

Told to Conserve Natural Gas

THE personnel at Camp Robinson was ordered recently to conserve natural gas on the reservation this winter by Lieutenant Colonel G. C. Graham, camp commander.

"Information has been received from the Arkansas Louisiana Gas Company, stating there is an acute shortage of natural gas to furnish all activities," the order said, "and unless the most rigid economy in the use of gas is observed, there will not be sufficient fuel essential for domestic, commercial, and war-time needs."

Colonel Graham ordered the gas supply on all gas-fired equipment, except thermostatic

controlled, to be turned on only when necessary. Occupants of hutments were ordered to turn off their heaters when retiring for the night and when leaving.

R. W. Curran, general manager for the Arkansas Louisiana Gas Company, said there is no serious shortage of natural gas in the Little Rock area. He said there would be enough to service all types of customers if it is not wasted.

Formal Permit Issued

THE state utilities commission last month formally authorized the Arkansas Power & Light Company to supply 6,000 kilowatts of

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power to four pumping stations on the El Dorado-Helena oil pipe line.

Two rural electric cooperatives whose territory would be traversed by transmission lines to two of the pumping plants waived their right to protest at a hearing held early last month.

The commission said in granting the per-

mit that "it is questionable whether the facilities proposed to be constructed may be used in the public service at the conclusion of the war emergency."

In granting the application, the full commission accepted the recommendation of Commissioner A. B. Hill, who had been authorized to hold a hearing.

California

Supervisors Urge Power Plant

CONSTRUCTION of a power plant at Red Mountain Bar as an adjunct of the Hetch Hetchy system was recommended on October 13th by Supervisors MacPhee and Uhl. The two supervisors, members of the board's finance committee, returned from a week-end inspection trip of the Hetch Hetchy facilities to ask for "immediate action" on the construction of the Red Mountain Bar plant at a cost of \$2,000,000.

The expense, they said, could be written off at the rate of \$700,000 a year, secured from sale of the added power to the war-time aluminum plant near Modesto. They suggested financing through the Reconstruction Finance Corporation.

Several years ago the voters turned down a \$1,250,000 bond issue for construction of Red Mountain Bar. City officials estimate the project would yield 25,000 kilowatts and pay for itself in four years.

City Railway Purchase Opposed

UNION employees of the Municipal Railway and the Market Street Railway submitted opposing resolutions on the proposed city purchase of the Market Street line at a recent meeting of the San Francisco Labor Council.

Municipal employees backed the purchase, while the Market Street Railway employees opposed it with the charge that the price was exorbitant. Both resolutions were submitted to the legislative committee.

District of Columbia

Gas Rates Increased

ANSWERING an argument of the Office of Price Administration that a rate increase at this time is inflationary, the District of Columbia Public Utilities Commission on October 13th authorized the Washington Gas Light Company to effect a consumer rate increase to boost the company's revenue by \$200,141 annually.

The order, which was retroactive to September 1st, was issued in the face of a violent dissenting opinion from Gregory Hankin, commission minority member. It involves an average monthly rise of 3 cents for each domestic consumer. The edict climaxed many months of argument.

"I dissent from the opinion and order of the commission on four grounds," declared Commissioner Hankin, in contending that the public utility should undergo decreases in rates involving approximately \$617,000, rather than increase them.

The commission first used the sliding-scale arrangement for the gas company seven years ago, as an instrument for determining gas rates annually.

A public utility authorized to raise its tariff is required, under the Price Control Act, to

inform James F. Byrnes, new economic stabilization director, of the altered status of its consumer tariff. James H. Flanagan, chairman of the commission, acting in conjunction with Charles W. Kutz, member of the commission, took notice of the new Price Control Act by stating, "I am assured by the company that it will give appropriate notice to the Honorable James F. Byrnes in compliance with the recent act of Congress amending the Emergency Price Control Act of 1942, and that such notice will be accompanied by a copy of the findings and order of this commission."

A \$357,000 increase which the gas company contended it was entitled to was reduced \$156,075 by the decree, with the reduction largely based on a shrinking of potential surplus profits taxes, special adjustments of maintenance costs, and income taxes.

Director of Economic Stabilization James F. Byrnes on October 15th directed Price Administrator Leon Henderson to "take such action as is within your power" to stave off the District gas rate increase order by the utilities commission and have the case reopened for "more adequate consideration" of its inflationary effect. Henderson subsequently told the commission that his legal staff had been advised to take steps to rescind the order.

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Illinois

Favors Readings Every Two Months

THE Commonwealth Edison Company recently decided to apply to the state commerce commission for permission to read Chicago residential electric meters once each two months instead of each month, Charles Y. Freeman, company chairman, announced.

Bills would continue to be rendered monthly, however, so household budgets would not be upset. The amount billed in the

odd months would be "averaged," with automatic correction by actual readings for succeeding months.

Monthly meter readings would continue for large commercial and industrial users of electricity.

The object of the change is conservation of man power in war time. The company already is short about fifty or sixty meter readers, and increased difficulty was expected in obtaining competent, trustworthy readers as demands of the armed services and war plants increase.

Indiana

Utility Act Challenge Dropped

AFTER counsel for the Indiana Service Corporation of Fort Wayne, Indiana, told the court the corporation had been released by the Securities and Exchange Commission from filing a recapitalization plan, Federal Judge Thomas W. Slick said he would dismiss a suit challenging validity of the 1935 Public Utility Holding Company Act.

The Massachusetts Mutual Life Insurance Company of Springfield, Massachusetts, last

September challenged the act in a suit to restrain the Fort Wayne corporation from filing the plan with the SEC.

The suit alleged that the redistribution of voting power among stockholders and the scaling down of securities as contemplated in the reorganization plan would endanger the interests of security holders.

Counsel for the Service Corporation told Judge Slick that as a result of the SEC action the company would not file the reorganization plan.

Kansas

Rate Compromise Endorsed

TOPEKA city officials on October 17th took steps to assure "maybe by winter" a reduction of gas rates to Topekan of about 10 cents per thousand cubic feet. The commissioners authorized Mayor Frank J. Warren to sign a letter, written to the state corporation commission by City Attorney John S. Dean, authorizing the commission to make a compromise settlement with the Cities Service Pipeline Company on the gas rate to city dis-

tributing plants. Various other cities in the state, serviced by the Cities Service Company, were expected to make similar reports to the state commission.

The Federal Power Commission has issued an order for a public hearing to open in Kansas City, Missouri, on November 30th to determine reasonableness of the wholesale gas rates charged by Cities Service Gas Company, which is authorized to do business in the states of Texas, Oklahoma, Nebraska, Missouri, and Kansas.

Kentucky

Buys Tri-City Firm

PURCHASE by the Kentucky Utilities Company of the Tri-City Utilities Company, operating eleven public utility properties in Kentucky and Tennessee, was announced in Lexington on October 12th by R. M. Watt, president of Kentucky Utilities.

Watt estimated the purchase price would

range between \$1,500,000 and \$2,000,000, depending on adjustments in valuation as of the date the property changes hands.

Tri-City was organized last winter to take over remaining properties of the now defunct Kentucky-Tennessee Light & Power Company, Bowling Green, after the bulk of the latter's properties had been sold to Tennessee Valley Authority, five Kentucky cities, and

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REA coöperatives operating in those areas.

Rural Co-op Employees Strike

SIX employees of the South Kentucky Rural Electric Coöperative Corporation, serving practically all of seven counties in that section of Kentucky, struck on October 6th after directors of the corporation refused to negotiate a contract with the International Brotherhood of Electrical Workers, an American Federation of Labor union. The strikers went back to work October 15th, pending negotiation of a union contract.

The strike did not affect service to customers of the coöperative, which is a distribution system, buying its power from the Kentucky Utilities Company.

The strikers were three linemen and three office employees.

Says Utility Rate Too High

AN Indiana utility expert told the state public service commission on October 15th that electric rates in Frankfort and its vicinity could be reduced 28.34 per cent and still yield the Tri-City Utilities Company a 6 per cent fair return and enough to pay all taxes exclusive of Federal and state income levies.

Earl L. Carter, consulting engineer from Indianapolis and president of the Southeastern Indiana Power Company of Rushville, testified that the value of Tri-City's power property was \$486,000, rather than the \$559,000 at which company experts pegged it.

By reducing power rates 24.6 per cent, he asserted, the company, on a rate base valuation of \$486,000, would be able to pay all taxes out of revenue and still obtain a 6 per cent return.

Carter's comment came during a hearing before the commission which had ordered Tri-City, formerly the Kentucky-Tennessee Light & Power Company, to show cause why electric rates in the Frankfort area should not be lowered.

Testimony in Frankfort's battle for reduced electric rates ended on October 16th after Hugh Bearden, state commission consultant, expressed the opinion that a reduction of 32 per cent in rates could be instituted and the company still could realize a fair return.

Commission Chairman J. J. Greenleaf granted Leo T. Wolford, attorney for Tri-City Utilities Company, which serves Frank-

fort, and City Attorney Marion Rider ten days to file briefs in the case, but advised them that the commission's opinion-order would be issued by November 2nd.

Seeks Rate Increase

THE Western Kentucky Gas Company, with headquarters in Owensboro, on October 6th asked the state public service commission for permission to raise rates in 25 cities and communities, including Madisonville and Princeton. A hearing on the request was scheduled for October 28th at Frankfort.

The petition, signed by W. J. Hinchey, vice president of the company, and filed by A. D. Kirk, attorney, said the rate raise would increase the average monthly bill of 3,166 affected customers by 44.4 cents and bring the company about \$16,800 new revenue a year.

Commission Secretary Marvin Eblen said he had notified all mayors (county judges in some cases) of the affected communities. He said the Office of Price Administration in Louisville and Washington also had been advised of the company's request.

Fares Remain Same

THE Louisville Railway Company's "2 tokens for 15 cents" fare will be the rate in Louisville for some time to come, it was made plain recently after conference between city experts, representatives of the company, and Mayor Wilson W. Wyatt.

"It is obvious that the company's earnings are within the 7.7 per cent range on its rate base—they are something less than 7 per cent now," Mayor Wyatt explained after the meeting. "Thus under the agreement no change in fare is indicated for the present."

Auditors for the company and for the city agreed as to the income and other vital factors, the mayor explained. Among the conferees were John H. Bickley, Chicago, utilities consultant who prepared an exhaustive survey for the tram company in 1940, and John E. Tarrant, company attorney.

Main purpose of the meeting was the consideration of the results of the 6-month trial fare system now in operation. The six months were over August 31st.

Mr. Tarrant said mounting expenses have kept abreast of greater revenue that is resulting from an influx of car riders.

Missouri

Power Company Sale Opposed

THE city of St. Louis on October 15th filed with the state public service commission

briefs opposing the proposed sale of the Laclede Power & Light Company, subsidiary of the Laclede Gas Light Company, to Union Electric Company of Missouri, and the pro-

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posed reorganization of Laclede Gas Light.

At the same time, Taylor Sandison, of the local Office of Price Administration, filed a motion for a continuance of the hearing at Hotel Statler on the applications for approval of the two proposed measures, on the ground that purchase of Laclede Power by Union Electric would mean an increase in rates to present customers of Laclede Power. He asked that the Union Electric make known its intentions as to increasing rates for these consumers, and that the OPA then be given thirty days in which to file briefs. "Such an increase—amounting to about 5 per cent of the costs now paid by the customers of Laclede Power," said Sandison, "would add to the inflationary problems of these war days."

In its brief opposing the proposed sale of the Laclede Power & Light Company, the city, as an intervenor in the proceeding, denied that the application was in the public interest, and stated that any order approving it would be unreasonable and unlawful.

Valuations Compared

THE State Board of Equalization recently began an investigation of the discrepancies between utilities' tax returns and their valuations by the state public service commission for rate-fixing purposes.

The commission's valuations of a utility property are used as an investment base on which the company is permitted a fixed percentage of annual profit. Those valuations are always higher in Missouri than the valuation on which a utility pays property taxes.

Armed with state commission figures showing the Southwestern Bell Telephone Company placed an \$86,032,581 valuation for rate purposes on the same property the company listed for taxes at \$48,712,440, the equalization board called on the telephone company for an explanation.

Southwestern Bell is one of three utilities whose assessments were protested against by the Kansas City administration.

Nebraska

District Shows Deficit

THE Eastern Nebraska Public Power District showed a deficit of \$226 for 1941 according to an audit for the year filed last month with Governor Griswold. The district at the end of 1941 had 1,608 miles of line and 2,890 consumers.

Operating revenues were reported as \$139,130, but after deducting operating expenses of \$59,658 and estimated depreciation on its electric plant of \$37,826, a total of \$97,485, the net income from operations was \$41,645. Gross income was \$42,681, but interest was \$42,907, which left a deficit.

The district's long-term debt is \$1,577,110. The audit said that the district has made all principal and interest payments on its debt during 1941 and has a cash reserve of \$25,000 for future amortization and interest.

District Accepts Offer

ACCEPTANCE of a \$1,321,380 offer for its Nebraska City electrical properties was announced last month by the board of directors for the Consumers Power District.

The price was fixed by the Consumers board and agreed to before negotiations by Nebraska City officials. It included the value placed on the property by Consumers and the call price on the bonds. Merchandise in the Consumers store at Nebraska City was not included.

Consumers also approved purchase from the village of Raymond, Nebraska, of the town's distribution system, and its share in the transmission system, for \$7,100. Consumers agreed to pay off over a 5-year period, enabling the town to pay its bonds. Raymond gave the power district a 25-year franchise and a 5-year street-light contract.

The Nebraska City commission in a special meeting October 6th adopted an ordinance calling for an election on the subject of a \$1,460,000 revenue bond issue November 3rd. The council also authorized Mayor Wes Trail and City Clerk Ethel Gaskill to execute the \$1,321,380 purchase contract agreed to by the Consumers board of directors.

C. C. Sheldon, treasurer, recently announced at Columbus that Consumers Public Power District has paid almost \$185,000 to 78 counties in the first half of the year "in lieu of tax payments."

New York

Asks Review of FPC Order

THE Niagara Falls Power Company last month petitioned the United States Circuit Court of Appeals for review of a June 9, 1942, Federal Power Commission order which purported to fix the "actual legitimate original cost" of the company's hydroelectric

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generator properties as of March 2, 1941, at \$24,680,680.

The commission's order also directed the company to remove from its fixed capital, accounts for the hydroelectric project of not less than \$44,453,868, as of the 1921 date, and to charge against its earned surplus income amounts totaling \$15,537,943.

Acts on Gas Supply

THE Rochester Gas & Electric Corporation was given authority last month to reduce the amount of manufactured gas supplied for

industrial purposes to new customers or existing customers requesting additional gas between November and April, inclusive.

Maurice C. Burritt, state public service commissioner, recommended the action, he said, to assure the company's regular customers of an adequate supply during the peak winter months.

Mr. Burritt explained the increasing demand for gas was approaching the company's capacity to produce, and it was anticipated that many industrial customers would apply for gas service to protect themselves against shortages of other fuels.

North Carolina

Fight for Rate Reduction

MAYOR Hargrove Bellamy of Wilmington, who appeared last month before the state utilities commission in an attempt to get a reduction in the rates of the Tide Water Power Company of Wilmington and to get the commission to recommend to the governor that money be secured from the Emergency and Contingency Fund for an investigation of the company's financial condition, charged that the delay of some fifteen months on the part of the commission "has cost the users of electricity and power in eastern North Carolina many thousands of dollars a month."

The mayor headed a delegation of Wilmington and New Hanover county officials who appeared before Utilities Commissioners Winborne, Hunter, and Johnson.

H. Zinder of the Federal Power Commis-

sion said in respect to the earnings and rates of the Tide Water Power Company's electric department that "for the past 4-year period 1938 through 1941, inclusive, the earnings from electric utility operations exceeded the amount necessary to provide such a return by approximately \$152,000 a year, to which amount must be added savings in income taxes that would follow any reduction in revenues.

"It is my opinion," he said, "that if an investigation of the company's electric plant and operation were undertaken the resulting return in excess of 6 per cent would be found to be greater than that found by the use of the company's filed reports."

Winborne has denied Bellamy's charge of the \$4,000,000 discrepancy in reports of the Tide Water Power Company. "It cannot be true," the chairman said, "since the company has never made more than a million dollars."

Ohio

Run-off Election Ordered

THE National Labor Relations Board on October 14th ordered a run-off election at the Washington Court House branch of the Dayton Power & Light Company to determine whether employees shall be represented by the International Union of Operating Engineers and the International Brotherhood of Firemen and Oilers (AFL) or the Dapolico Workers, Inc. The election must be held in thirty days.

In a recent election the AFL unions received four votes and Dapolico four.

Opposes Long Gas Rate Fight

MAYOR George J. Harter contended recently that Akron cannot afford a "long gas rate fight" at this time and wants the city

council to reopen deadlocked negotiations with the East Ohio Gas Company, which serves numerous northeastern Ohio cities.

He gave this explanation for vetoing a new rate ordinance passed by the council but rejected by the utility.

Asserting one rate litigation had cost the city \$500,000, Harter expressed the opinion "council should reopen negotiations with gas company officials in an effort to arrive at a satisfactory settlement."

Out to Ban One-man Cars

A NEW controversy between the Cleveland City Transit System management and the employees' AFL union loomed up recently a few hours after the most explosive previous one had been settled by a court of appeals decision permitting disbursement to the street

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car and bus men of a \$230,000 retroactive wage increase.

Between 300 and 400 transit workers, in a mass meeting, voted to present a demand to CTS General Manager Walter J. McCarter that he discontinue one-man street car operation on four lines "until proper equipment

can be obtained"—which means for the duration of the war.

Asserting his personnel shortage was so acute that he not only intended to retain one-man operation on four lines, but to extend it to others as well, McCarter said he would fight the union's demand "to the limit."

Oklahoma

Gas Rate Increase Requested

AN application for increase in gas rates at Ada was asked of the state corporation commission last month in a petition filed by the Southwest Natural Gas Company.

The present base rate is 38 cents a thousand cubic feet for the first 100,000 cubic feet. The company claimed a deficit of \$9,157 for the twelve months ending December 31, 1941, and a deficit of \$29,592 for the twelve months ending June 30th.

Pennsylvania

Order Bars Fare Increase

THE state public utility commission closed the door on October 13th to higher trolley fares for Philadelphia. Affirming a recent tentative order, the commission rejected finally the Philadelphia Transportation Company's request for a boost from 8 cents straight, or

2 tokens for 15 cents, to 10 cents straight, or 3 tokens for a quarter.

It was believed the fight would continue in view of the commission's affirmation of its previous figure of \$77,000,000 as the system's value.

The order was entered by a 3-to-1 vote, the commission making one slight concession.

South Carolina

Merger Hearing Ends

THE taking of testimony in the case before the state public service commission in which two midstate utilities were seeking authority to consolidate has been completed, and the hearing recessed until November 4th, when oral argument will be heard by the commission.

Asking the right to merge are the South

Carolina Electric & Gas Company, of Columbia, and the Lexington Power Company, of Lexington county, which owns the large Lake Murray hydroelectric development, 16 miles above Columbia. Both concerns are owned by the General Gas & Electric Company, a New York holding company, which, in turn, is owned by the defunct Associated Gas & Electric Corporation of New York.

Texas

Commission Chairman Elected

BEAUFORD H. Jester of Corsicana, newly elected member of the state railroad commission, succeeding Jerry Sadler, is scheduled to become chairman of that body on January 1st in succession to Ernest O. Thompson.

In recent years the plan has been to rotate the chairmanship, giving it to the member whose term is expiring. This is only a commission-made custom and came into practice when Pat M. Neff was named as a member.

Prior to that the precedent was directly the opposite.

Another precedent would occur when Jester takes the chairmanship after approximately four months' service, something that never before occurred. Through the fifty years of commission history, the chairman invariably has been a member with several years' tenure.

Having been elected to fill the remainder of Sadler's term, Jester will be a candidate in 1944 for the regular 6-year service. He would be serving as chairman at the time.

The Latest Utility Rulings



High Debt Ratio Approved in Organization Of Water Company

APPROVAL of the sale of water properties and franchises by the Arkansas Power & Light Company to the Arkansas Municipal Water Company and the issuance of securities by the new corporation were approved by the Arkansas Department of Public Utilities although involving \$2,400,000 of bonds secured by properties transferred at a price of \$2,902,500. The commission determined that the minimum value of the property involved was not less than this purchase price, but there was not sufficient evidence from which the maximum values of the properties might be fixed.

The new corporation was to issue 890 shares of \$100 par value preferred stock, 4,440 shares of Class A common stock of \$25 par value, and 10,000 shares of Class B common stock of the par value of \$1 per share. The John Hancock Mutual Life Insurance Company was to purchase the bonds, bearing interest at 4 per cent and running for twenty-five years, at 4 per cent above par.

The bonds were to be secured by a first lien created by the execution of a first mortgage and collateral trust agreement covering certain water properties and also by a pledge of all the common and preferred stock and first mortgage bonds issued by nineteen subsidiary corporations to be created to own and operate the properties in various communities. In consenting to this bond issue the department said:

Upon the concept of public utility financing prevailing a few years ago, \$2,400,000 would be a rather high issue of bonds. But, because of the unusual tax burdens now existing upon corporations, the previous concept is being modified, and issues are now being approved for a higher percentage of the

actual fair value of the property than was heretofore thought to be practicable.

Experience has shown that the revenues of water companies during periods of depression or financial stress are much more stable than are those of other public utility operations, and that water companies lose a less percentage of their gross revenue and of their customers.

Furthermore, the testimony shows that this issue is in effect a private issue and will not be offered to the public, and will be taken by John Hancock Mutual Life Insurance Company as an investment.

Approval was conditioned upon an amendment of the articles of incorporation of the new company to provide that until a proposed bank loan of \$250,000 is fully liquidated each share of preferred stock would have one vote, each share of Class A common stock one vote, and each share of Class B common stock one-fifth of a vote in the management of the affairs of the company. The original proposal was to give holders of Class A common and Class B common one vote per share without giving any voting rights to the preferred stockholders.

A finding that the transfer of the property would be in the public interest was based upon evidence that electric customers of the company were to some extent subsidizing water consumers, that many joint expenses could not be allocated except upon some arbitrary basis, that men experienced in financing and operating public utility properties were the moving and controlling spirits behind the organization of the new company, that they were buying these properties for investment and not speculation, that the operating personnel would have no concern with the operation of electric properties, and that the purchase and operation of the properties by the

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new company would enable the customers, both present and future, to receive just as good service if not better than they had previously received.

The power company is a subsidiary of the Electric Power & Light Corporation, a holding company in the Electric Bond and Share system. The Securities and Exchange Commission has indi-

cated that the water properties are not retainable, and the Arkansas department said it concurred in this view and believed that both electric and water consumers would be more efficiently and economically served if the two operations were wholly separate and distinct. *Re Arkansas Power & Light Co. (Docket No. 575).*



Interstate Toll Rates Held to Be Discriminatory

SINCE the Mountain States Telephone & Telegraph Company renders intrastate toll service under conditions and circumstances substantially the same as conditions and circumstances under which it renders interstate toll service, using substantially the same facilities, the Utah commission has held that higher rates for the intrastate service for comparable distances are discriminatory. The commission referred to similar decisions in *Michigan Bell Teleph. Co. v. Public Service Commission* (1941) 297 Mich 92, 39 PUR(NS) 111, 297 NW 198; *Washington Department of Public Service v. Pacific Teleph. & Teleg. Co.* (Fed CC 1941) 37 PUR(NS) 129; *Bell Teleph. Co. v. Public Utility Commission* (1939) 135 Pa Super Ct 218, 28 PUR(NS) 266, 5 A(2d) 410, appeal dismissed (1940) 309 US 30, 84 L ed 563, 32 PUR(NS) 304, 60 S Ct 411.

Interstate rates are not under the jurisdiction of the state commission, but it was observed that they had been voluntarily established by the company and approved by the Federal Communications Commission. The state commission must therefore assume that the interstate tolls are just, reasonable, and compensatory to the company. No contrary claim had been made.

The company contended that a reduction in intrastate rates to the level of interstate rates would confiscate its toll property in Utah. It did not contend, however, that such reduction would result in confiscation of its property in the state based upon its entire intrastate operation. Final disposition of the case,

the company urged, should be postponed for at least a year to permit the company to prepare a study separating and segregating intrastate toll property, expenses, and revenues so that the commission might determine the reasonableness of return on toll property in the state alone. On this point the commission said:

The company offered nothing to indicate that in past years intrastate toll rates have been separately considered from exchange rates or that they have been constructed and established on a basis which would bring a fair return on the purely Utah toll property. It makes no separation on its books of its toll and exchange property in the state, nor does it make any accurate separation of intrastate toll costs and revenues from exchange costs and revenues. The commission is of the opinion that there is no constitutional or other requirement that the company shall be permitted to earn a reasonable return on its Utah investment in intrastate toll property considered separately and apart from all other property of the company in the state.

During the proceedings the company objected to the conduct of the hearing by members of the commission on the ground that they were prejudiced by reason of the fact that they verified the complaint which instituted the investigation. Objection was also made to holding the hearing for the reason that it would unduly interfere with the war effort of the company.

The latter objection was viewed as frivolous. The first objection was overruled with the statement that the commission has followed this procedure for many years and it is in accordance with

THE LATEST UTILITY RULINGS

its rule that the complaint could be verified.

The purpose of proceeding in this manner is to narrow the issues and expedite disposition of the investigation. The statutes specifically provide for such a procedure on the part of the commission by filing a petition or complaint in writing. Verification of the

complaint is a formality in keeping with commission rules. While called a complaint this was said to be no different from a show-cause order calling upon the company to do certain things or state in writing why it did not do so. *Public Service Commission of Utah v. Mountain States Telephone & Telegraph Co.* (Case No. 2503).



Commission Lacks Jurisdiction over Claim Of Refund under Contract

A COMPLAINT alleging that a municipal water utility had refused to refund advances made for extensions of service to a real estate development was dismissed by the Pennsylvania commission for lack of jurisdiction. The matters complained of, said the commission, involved contractual obligations. No question of the reasonableness of rates or adequacy of service was involved. The commission observed:

The commission has in several cases held that where the basis of a complaint before the commission arises purely and solely out of contractual obligations between complainant and respondent, and no question of rates or service is involved, then the commission has no jurisdiction, but complainants must have recourse to courts of law.

Hayes et ux v. Burgess and Town Council of Borough of Morrisville (Complaint Docket No. 13724).



Pipe-line Construction Authorized to Relieve Gas Shortage

THE Federal Power Commission issued a limited certificate of public convenience and necessity authorizing Panhandle Eastern Pipe Line Company (including its wholly owned subsidiary, Michigan Gas Transmission Corporation) to construct and operate a pipe line from a point near the Ohio-Michigan state line and connecting with a line of the Ohio Fuel Gas Company to Toledo at a point immediately west of the village of Maumee, Ohio. The commission made affirmative findings on the necessity for the project, for which a preference rating order had been issued by the War Production Board, and also determined that Panhandle Eastern rather than the Ohio Fuel Gas Company should receive the certificate.

Ohio Fuel proposed that the project be considered only as a war emergency measure, that its cost should be amor-

tized over a 5-year period, and that it be authorized by a temporary certificate limited both in time and scope to the duration of the present war emergency. Panhandle Eastern, on the contrary, proposed that the connection be permanent and that it be authorized by a regular certificate unlimited in duration. It considered the connection as permanently necessary to serve both present war needs and future requirements occasioned by the rapidly depleting supply of natural gas in the Appalachian area. The commission said:

... the present corporate affiliation between Panhandle Eastern and Ohio Fuel is in the process of severance and Panhandle Eastern is more willing to do what is required to serve both the present and future public convenience and necessity in the affected area. Its construction and operation of the project would permit the delivery by it of natural gas to Ohio Fuel in the vicinity of Toledo,

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as requested by the War Production Board. A certificate issued to Panhandle Eastern would not only permit the use of the proposed facilities during the present war emergency, but would also make available an additional source of supply in the Ohio market thereafter, to the possible advantage of the consuming public.

Ohio Fuel contended that pending commission determination of its application for a certificate under the "grandfather" clause of § 7(c) of the Natural

Gas Act a certificate was not required for the proposed construction. The commission replied that both applicants were engaged in transportation and sale for resale of natural gas in interstate commerce, and to accept the contention mentioned would result in defeating the expressed intention of Congress in amending § 7 to require a certificate of convenience and necessity. *Re Ohio Fuel Gas Co. et al. (Opinion No. 81, Docket Nos. G-408, G-410).*

Density of Areas Affords Basis for Rate Differences

A RATE complaint by customers on a line extension of a municipal electric plant was dismissed by the Wisconsin commission with the statement that it is well established that it is not unreasonable for a utility to classify its customers upon the basis of their density within given areas.

While the particular application of any such classification is of necessity somewhat arbitrary, said the commission, the classification under consideration was not so arbitrary as to be unreasonable. The utility had classified customers east of city limits into urban and rural customers and placed the division line at a certain road.

Gross revenues from the customers served by the extension amounted to approximately \$3,300, and the investment in the line was \$11,741. Under the utility's urban extension policy, extensions

of facilities are made without customer contributions where the cost of the extension, as estimated, will not be greater than three times the utility's estimate of annual revenues to be derived therefrom. These revenues did not equal one-third of the utility's investment in the line.

Seventy-two customers were being served from a line 11.1 miles in length, resulting in an average of 6.5 customers per mile. Seventeen of the customers were seasonal customers and 4 were schools and churches enjoying urban rates under the utility's rules. On the other hand, in rural territory between the city limits and the dividing line there were 35 customers served from approximately 1.5 miles of line, resulting in an average customer density of 23.3 customers per mile. *Warren et al. v. City of Wisconsin Rapids (2-U-1836).*

Coal Surcharge Not Supported By Cost Figures

A COAL surcharge was disapproved by the New York commission on the ground that the company had failed to show that it was entitled to additional revenue. Its evidence as to the rate of return earned in the manufactured gas division was said to be neither complete nor satisfactory. Its claimed rate base

was said to be too high and probably containing improper elements. When all doubtful elements were eliminated, and a small adjustment to income made, the company appeared to be earning at least 5½ per cent and up to 5¾ per cent return on the adjusted rate base. This, under present conditions, said the commission,

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could not be considered an inadequate return.

Evidence had been presented as to the increased cost of coal but this, it was pointed out, is only one element in the cost of gas. Insufficient evidence had been submitted to show whether other costs, such as sales expenses, for example, had not been decreased. It was said that if rates should be increased because one item of cost has increased, they should be decreased when one item of cost is lessened.

The commission excluded from the rate base contributions in aid of construction and excessive claims for working capital, continuing property records expense, and a charge for general ad-

ministration expense based on the theory that it cost as much to administer and supervise \$1 of construction costs as it does to supervise and administer \$1 of operating expense. Construction work in progress was left in the rate base, with the observation that the company was not accruing interest on this work and the rate of return would be affected very slightly.

An amortization charge previously ordered by the commission to cover excess purchase price of a municipal gas plant was excluded from operating expenses on the ground that it should have been charged to income. *Re Republic Light, Heat and Power Co. (Case 10828).*



Rates Varying with Liability Rejected

A PROCEEDING before the New York commission to determine whether motor common carriers should be authorized to establish rates varying according to the predetermined value of property transported, as values are fixed by shippers, was closed after an unsuccessful attempt by carriers to justify the rates.

The commission had previously ruled that the Public Service Law did not permit common carriers to limit their liability for loss, damage, or injury to property transported unless expressly authorized by order of the state commission.

The commission was satisfied that for certain commodities variation in rates, due to varying liability, is generally in the public interest and that it is reasonable to provide that where shippers are willing to limit the liability of the carrier to specific amounts, lower rates should be established.

It is not sufficient, said the commission, to establish the reasonableness of limited liability rates of some character. Rates must be specific and there should be proof that the rates proposed are just and reasonable. It will not do to establish the fact that certain rates have been

charged in other jurisdictions, particularly where there has been no ruling by other authorities upon detailed facts duly presented that such rates are just and reasonable.

Two ways in which material testimony as to specific rates could be presented were pointed out. In the first place carriers ought to be able to show what they have had to pay as a matter of actual experience for loss and damages by classes of property, length of haul, etc. The experience of insurance companies in meeting losses under policies which have been issued should be a guide as to what premiums should be charged. It appeared to the commission that the additional or penalty charge proposed to cover the carrier's liability was arbitrary and did not reflect actual cost.

It was also noted that the penalty charge for shipments exceeding the proposed basic value was a fixed percentage of the base rate and progressed as the distance increased. It appeared from the testimony, however, that additional insurance premiums did not progress on the same basis but that the rate of premium was constant and based solely on the amount of coverage, although certain exhibits indicated a sliding scale ap-

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parently having some relationship to mileage. *Re Rates for Common Carriers of Property by Motor Vehicle* (Case 10479).



Other Important Rulings

An interstate motor carrier was authorized by the New York commission to pick up intrastate passengers along the route over which it was operating, where no local transportation existed over that route, in preference to the granting of a new extension of an intrastate route, in view of the motor carrier service extension restrictions imposed by the ODT during the present war emergency. *Re Champlain Bus Corp.* (Case 10827).

A Federal District Court held that the Interstate Commerce Commission, in determining whether a carrier was entitled to a contract carrier permit under the "grandfather" clause of the Motor Carrier Act, properly applied the "specialization test," under which the carrier must have performed special and individual service required by the peculiar needs of the shipper. *Doyle Transfer Co. Inc. of Glasgow, Ky. v. United States et al.* 45 F Supp 691.

The Pennsylvania Superior Court held that the commission had properly disregarded improvements in an existing motor carrier service made after a prospective competitor applied for authority to serve an area, stating that the commission is not required to order an existing carrier to increase or improve its service instead of permitting a competing carrier to enter the field. *Hall's Motor Transit Co. v. Pennsylvania Public Utilities Commission*, 27 A(2d) 428.

The superior court of Delaware held that a shipper is presumed to know legal rates for interstate shipments filed under the Motor Carrier Act; that the pub-

lic policy as declared by the act is of such rigidity as to deny to the shipper a counterclaim for damages resulting from a misrepresentation of rates by the carrier; that all rebates from tariff schedules, whether voluntary or involuntary, are viewed with disapproval; that a motor carrier can recover the difference between lawful rates and amounts paid; and that the public policy declared by the Motor Carrier Act overrides all agreements and understandings between shipper and carrier. *Travers v. Artic Roofing, Inc.* 27 A(2d) 78.

A city's plumbing code requiring licenses for those engaged in the business of plumbing or the installation, alteration, or repair of a plumbing system was held by the New York Court of Appeals not to apply to installation by a water company and its agents of laterals in a public street and their connection with the company's water main, where connection between the customer's premises and the lateral was made by a plumber employed by the applicant for service. *City of New Rochelle v. Burke et al.* 43 NE(2d) 463.

The Maryland commission dismissed for lack of jurisdiction a complaint by a water consumer against service charges imposed by the city of Baltimore on water consumers outside of the municipal limits, holding that the city, with the approval of the commission, has exclusive power to fix rates and that the city is not a "water company" under the general provisions of the Public Service Commission Law. *Wright v. Mayor and City Council of Baltimore* (Order No. 38777, Case No. 4548).

NOTE.—The cases above referred to, where decided by courts or regulatory commissions, will be published in full or abstracted in *Public Utilities Reports*.

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RECOMMENDATIONS OF COURTS AND COMMISSIONS



VOLUME 45 PUR(NS)

NUMBER 3

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RE NIAGARA FALLS POWER COMPANY

FEDERAL POWER COMMISSION

Re Niagara Falls Power Company

[Project No. 16, Opinion No. 77-A.]

Accounting, § 8 — Cost of power project — Inflation — Project or nonproject property.

1. A power company holding a Federal license for construction of a power project should not be permitted to retain inflation in its accounts whether project or nonproject, p. 130.

Accounting, § 56 — Amount disallowed as cost — Charge to surplus — Accumulation of future reserve.

2. A power company holding a Federal license for construction of a power project should not be permitted to accumulate a reserve out of future earnings sufficient in amount to equal, at the expiration of the license, the amount excluded by the Federal Power Commission from original cost of the project instead of charging such amount to earned surplus, p. 130.

Accounting, § 48 — Cost of licensed power project — Accumulation of excessive earnings.

3. A determination of the actual legitimate original cost of a federally licensed power project has a direct and immediate importance under § 10(d) of the Federal Power Act, 16 USCA § 803(d), when the first twenty years under the license have expired, in view of the provisions of that section requiring that excessive earnings after the first twenty years of operation under the license be accumulated in an amortization reserve for use in reduction of the net investment in the project, p. 131.

Accounting, § 3 — Jurisdiction of Federal Power Commission — Conflicting jurisdiction — State Commission — Securities and Exchange Commission.

4. Accounting requirements prescribed by the Federal Power Commission in an order determining actual legitimate original cost of a federally licensed power project and requiring the transfer of disallowed amounts to earned surplus do not conflict with or impair the regulatory jurisdiction of the Commission of the state in which the power company operates or the jurisdiction of the Securities and Exchange Commission, p. 131.

[September 1, 1942.]

ORDER to show cause with respect to accounting treatment of amounts disallowed as part of original cost of a federally licensed power project; stay of earlier order dissolved and licensee ordered to comply with Commission requirements. For decision on original cost of project, see 44 PUR(NS) 291, and for order staying such order, see 44 PUR(NS) 291, 314.

By the COMMISSION: This matter the above-named licensee of Project is before us upon the response filed by No. 16, to our order to show cause

FEDERAL POWER COMMISSION

(1) why the accounting instructions and requirements contained in paragraphs (A) to (F), inclusive, of our order of June 9, 1942, 44 PUR(NS) 291, in the above matter should not be made effective and enforced, and (2) to submit such accounting treatment as the licensee may propose for the disposition of the disallowed amounts.

[1] In its response, licensee principally objects to paragraph (E) of our order of June 9, 1942, which requires that disallowed amounts, totaling \$15,537,943.56, be removed from the project accounts and charged to earned surplus. It contends, inter alia, that some portion of this amount may relate to its nonproject lands and accordingly should be transferred to other physical property instead of being charged to earned surplus. In addition to the fact that such portion is not identified, we are unable to agree with this contention. As licensee was fully advised, the staff reports and the extended hearings dealt with the book cost of *all* fixed capital in service on license date, March 2, 1921. Although given ample notice and full opportunity to do so, licensee failed and refused to identify the inflationary items with particular items of property. Moreover, in any event we could not permit licensee to retain inflation in its accounts, whether project or nonproject.

We must also reject licensee's contention that some portion of the \$15,537,943.56, which we have ordered charged to earned surplus, was retired prior to license date, March 2, 1921. Although given ample notice and full opportunity to do so at the hearing, licensee failed to show what portion, if

any, of such amount was in fact retired.

The basic objection which licensee advances in its response to our show cause order is that the accounting requirements we have prescribed will adversely affect its credit and impair the distribution of its earnings. It is probably true that any deficit created in licensee's earned surplus by charging \$15,537,943.56 to that account will preclude the declaration of dividends, until the deficit is wiped out. However, the licensee could have proposed the creation of a capital surplus for absorption of such deficit which would substantially eliminate this objection.

[2] We stayed our order of June 9, 1942, and issued our show cause order to give the licensee full opportunity to propose an alternative accounting treatment for disposition of the disallowed amounts. However, instead of submitting any constructive proposals, licensee in its response makes the novel request that we revise our accounting requirements to permit it to retain the disallowed amounts in its fixed accounts "as valid assets for all corporate purposes and for all license purposes." In this connection it asserts that the disposition of the disallowed amounts has no legal significance except "in connection with the ascertainment of a recapture price, should the property be taken over in 1971 at the expiration of the license." It further requests that it be permitted to accumulate a reserve out of future earnings sufficient in amount to equal at the expiration of the license the \$15,537,943.56 which we have ordered charged to earned surplus.

To sanction such a proposal would be to nullify the basic purposes of the

RE NIAGARA FALLS POWER COMPANY

Federal Power Act, to ignore the interests of consumers and investors, and to permit the declaration of dividends out of capital.

[3] In sustaining our orders requiring that the disallowed amounts be written off to earned surplus, the courts have consistently rejected the contention that our determination of the actual legitimate original cost of a licensed project "is no more than preservation of evidence useful only when the license has expired." *Louisville Gas & E. Co. v. Federal Power Commission* (1942) 129 F(2d) 126, 130, 45 PUR(NS) 145; *Northern States Power Co. v. Federal Power Commission* (1941) 118 F(2d) 141, 39 PUR(NS) 23; *Alabama Power Co. v. Federal Power Commission* (1942) — App DC —, 44 PUR(NS) 197, 128 F(2d) 280, 289.

Petitioner's contention ignores the provisions of § 10(d) of the act, 16 USCA § 803(d), which require that excessive earnings after the first twenty years of operation under the license shall be accumulated in an amortization reserve for use in reduction of the net investment in the project. The first twenty years under this license have expired and our determination of the actual legitimate original cost accordingly has a direct and immediate importance under § 10(d) of the act.

Petitioner also ignores § 16 of the act, 16 USCA § 809, under which the United States may take immediate possession of this project when "the safety of the United States demands it." As the court said in the *Louisville Case*, *supra*.

"While adjudication (of project cost) may not in some respects be applicable until after the lapse of years,

in other aspects it may instantly become of highest importance. This must be so when the safety of the United States requires. Bitter experience has demonstrated that threats to national safety do not always proclaim their coming in advance, and the need for use by the government of power projects may suddenly appear. In this situation choice between one project and another immediately and peremptorily required, may rest upon comparative adjudications of cost of construction or net investment." (129 F(2d) at p. 131.)

[4] The final contention advanced by the licensee which requires brief comment is its assertion that the accounting requirements we have prescribed will conflict with and impair the regulatory jurisdiction of the Public Service Commission of New York and of the Securities and Exchange Commission. Such contention is clearly erroneous. Section 301(a) of the Federal Power Act, 16 USCA § 825 (a), in authorizing us to prescribe a system of accounts to be kept by every licensee and to determine by order the accounts in which particular items shall be entered, specifically provides "that nothing in this act shall relieve any public utility from keeping any accounts, memoranda, or records which such public utility may be required to keep by or under authority of the laws of any state."

Licensee's efforts to conjure up a conflict between the accounting requirements we have prescribed and the regulatory jurisdiction of the Securities and Exchange Commission is similarly without merit. There is no conflict between the requirements of this Commission and those of the Se-

FEDERAL POWER COMMISSION

curities and Exchange Commission. On the contrary, the coördination of the efforts of the two Commissions to protect the consumer, investor, and public interest is well illustrated by the order which the Securities and Exchange Commission issued on August 28, 1942, in *Re Niagara Hudson Power Corp.* File No. 59-52, Holding Company Act Release No. 3754. That order after reciting inter alia the corrective accounting prescribed in this Commission's order of June 9, 1942, schedules a hearing to determine the necessity of prohibiting the declaration of dividends on the common stock of The Niagara Falls Power Company "to prevent the payment of dividends out of capital."

We, therefore, find upon full consideration of the response to our show cause order and the entire record in this proceeding that the licensee has failed to show any cause why the accounting requirements heretofore prescribed in this matter should not be made effective and enforced; and we further find that licensee has failed, although given full opportunity to do so, to submit any other accounting treatment for disposition of the disallowed amounts.

An appropriate order will issue in accordance with this opinion.

ORDER

Upon consideration of the record in this proceeding and the answer filed on August 24, 1942, by the above named licensee of Project No. 16, in response to paragraph (B) of the Commission's order of August 14, 1942, requiring licensee:

(1) To show cause in writing, under oath, why the accounting instructions and requirements contained in paragraphs (A) to (F), inclusive, of the Commission's order of June 9, 1942, should not be made effective and enforced; and

(2) To submit to the Commission such accounting treatment as the licensee may propose for the disposition of the disallowed amounts; and

The Commission having on this date made and entered its opinion No. 77-A, which is incorporated by reference as a part hereof;

The Commission *finds* that:

(1) No cause has been shown why the accounting instructions and requirements contained in paragraphs (A) to (F), inclusive, of the Commission's order of June 9, 1942, should not be made effective and enforced;

(2) Licensee has failed to propose any proper accounting treatment for disposition of the disallowed amounts other than that prescribed in the Commission's order of June 9, 1942; and

The Commission *orders* that:

(A) The stay of paragraphs (A) to (F), inclusive, of the Commission's order of June 9, 1942, granted by paragraph (A) of the Commission's order of August 14, 1942, be and the same hereby is dissolved;

(B) Within sixty days of service of this order, licensee comply with the Commission's order of June 9, 1942, and execute and submit to the Commission FPC Form No. 76 showing such compliance.

RE LONG ISLAND LIGHTING CO.

NEW YORK DEPARTMENT OF PUBLIC SERVICE, STATE
DIVISION, PUBLIC SERVICE COMMISSION

Re Long Island Lighting Company et al.

[Case Nos. 10822-10825.]

Service, § 332 — War-time restrictions — Gas for space heating.

Gas companies unable, because of war-time restrictions, to secure necessary material for extension of mains or placing of services and handicapped by stringent regulations on deliveries of oil used in the manufacture of gas should be authorized to restrict the furnishing of space or building heating service to new customers and for new equipment to existing customers.

[August 5, 1942.]

PROCEEDING on motion of Commission as to certain changes
in tariffs relating to restriction of gas service for space heating; restrictions authorized.

APPEARANCES: Gay H. Brown, Counsel (by George E. McVay, Assistant Counsel), for the Public Service Commission; Charles G. Blakeslee, New York city, General Counsel, Long Island Lighting Company, Queens Borough Gas & Electric Company, Nassau & Suffolk Lighting Company, and Long Beach Gas Company; Elmer B. Sanford, Mineola, Long Island, General Attorney, Long Island Lighting Company, Queens Borough Gas & Electric Company, Nassau & Suffolk Lighting Company and Long Beach Gas Company; W. C. Chanler, Corporation Counsel (by Harry Hertsoff, Assistant Corporation Counsel), New York city, for the city of New York; John M. Mitchell, Mineola, Long Island, Deputy County Attorney, for the county of Nassau; Robert E. Tinsley, Malverne, Attorney for the village of Malverne; William G. Bushell, Northport, Long Island, Attorney, for the village of Northport.

VAN NAMEE, Commissioner: The Long Island Lighting Company, in a letter dated April 17, 1942, asked the Commission regarding a special provision to rate schedules providing for discontinuing the acceptance of new applications for gas service to space heating equipment furnished under S. C. No. 1 or No. 3. This action the company claims is required because of its inability to secure necessary material for the extension of mains or placing of services, the present stringent regulations on deliveries of oil in the manufacture of gas and the increasing prospects of more rigid control of gas sales through rationing which may confront the company by the opening of another heating season.

The four companies enumerated in the titles to this proceeding, therefore, submitted to the Commission revised rate schedules with a special provision to restrict the furnishing of space or building heating service to new cus-

NEW YORK DEPARTMENT OF PUBLIC SERVICE

tomers or for new equipment to existing customers. The special provision, in all rates in the schedules affected, reads as follows:

"In the interest of National Defense and during the existing emergency, on and after the effective date of this leaf, no additional business, either to new customers or to new equipment of existing customers, will be accepted for the heating of premises either as space heating or by a central installation; except to those business establishments directly engaged in war production provided, in the opinion of the company, its facilities are adequate to supply such service. When the facts establish with reasonable certainty that the customer has connected additional building heating equipment after the effective date hereof, the company will discontinue service, upon such notice as is or may be required by law, until the additional building heating equipment has been disconnected."

In view of the nature of the subject and lack of complete information, it seemed desirable to make an investigation to ascertain whether or not gas service was being refused by the companies and, if so, whether or not such refusal is justified by the facts. An order for an investigation was, therefore, made on June 9, 1942 and hearing was held on all four cases at once at New York city on June 26th.

Application for Space Heating

Since January of this year, there were 325 applications for space heating made to the companies involved of which 123 were accepted and served with gas, while the others were refused. In contrast to previous years practically all of these applications

were unsolicited. There are others who applied for space heating but the above were the only ones actually surveyed and checked by the companies. It was stated that the unusual number of unsolicited applications was occasioned by a general feeling of apprehensiveness among house occupants concerning the possibility of restricted supplies of heating oil for use in their existing heating equipment during the coming winter season.

The addition of a considerable number of space-heating customers is likely to bring up a problem as to the adequacy of existing distribution mains. For example, there is one section in the southeastern part of Nassau county which has adequate pipe line for the demands which have been served up to this year. There is, however, not sufficient capacity to take on any space-heating business for any housing development of 25 or 50 houses, without the construction of 3 or 4 miles of distribution lines back to the nearest transmission feeder. Whether such an extension could be made at the present time would be contingent on securing a priority for the necessary materials from the War Production Board.

The companies are not reducing the supply of gas for space heating from those who now have space-heating equipment installed but increased use by these consumers by reason of adding additional heating equipment cannot be furnished. Excepting space heating, the companies are making no restrictions of the customers' use of gas. This was stated in the following testimony of Mr. Carpenter for the company:

RE LONG ISLAND LIGHTING CO.

Q. Is there any other restriction or limitation that the company proposes to place on the use of gas?

A. Not at this date.

Q. Is it your opinion, Mr. Carpenter, that the restriction on space heating is the fairest way to apply any restriction at the present time to the use of gas?

A. For the situation that confronts us today I think this is the fairest and more reasonable way to handle this.

Now, if the Federal government should further restrict the supply of the raw materials or should set up some nation-wide restriction or zone restriction or rationing on the use of fuels, these gas companies as well as all others would have to find some means of complying with those regulations.

The companies, therefore, believe that the elimination of additional space-heating gas consumption (because of the large volume of gas used for this service) will more readily insure continuity of service to the existing water heating and cooking business as well as the present heating load now furnished, although further action may be necessary with respect to these classes of consumers.

The Companies' Position

Gas is manufactured by the Long Island Lighting Company in its own territory at the Bay Shore gas works which has a capacity of 6,000,000 cubic feet per day. The Long Island Lighting Company purchases gas at wholesale from the Nassau and Suffolk Lighting Company to supply the north Nassau territory. The Nassau & Suffolk Lighting Company has a gas

works which has a capacity of 8,000,000 cubic feet per day at Hempstead and purchases gas at wholesale from the Queens Borough Gas & Electric Company. The Queens Borough Gas & Electric Company has its gas works which has a capacity of 13,000,000 cubic feet per day at Rockaway Park in New York city. The Long Beach Gas Company does not manufacture gas but purchases its gas from the Queens Borough Gas and Electric Company. These three gas plants have a transmission system common to the territories of the companies.

The transmission and distribution system is adequate for present demands and present customer connections, but additional loads particularly of the demand characteristics of space heating, cannot be handled without enlargement of the service and in some cases, distribution lines. In the latter instances such distribution enlargement would involve several miles of pipeline construction.

Exhibit 14 shows that the plant capacity of the combined companies increased from a capacity of 24,600,000 cubic feet a day in the 1940-41 winter season to a capacity of 27,000,000 cubic feet a day in the 1941-42 winter season. This exhibit also shows the combined daily send-out of the companies for the same periods and the relation of the maximum daily send-outs to the combined plant capacity. A maximum daily send-out of 25,800,000 cubic feet is shown plotted on the chart for the 1941-1942 winter season and as the combined plant capacity is 27,000,000 cubic feet, it is to be seen that consumption at the peak load is within a small margin of the plant capacity. It is also to be noted that comparison

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of temperatures during the last three heating seasons as expressed in degree days indicates that the winter season of 1941-42 was a relatively mild one. On the question of available plant capacity to meet possible demands, the company witness testified as follows:

Q. Now if you were called upon to supply 2,000,000 cubic feet a day in addition to what was supplied in the heating season of 1941-1942 would that exceed the peak capacity of the plants of this company?

Commissioner Van Namee: That means 2,000,000 cubic feet a day more than what they were called on to supply in the last season any and every day, so that that includes peak days as well as other days.

Mr. Blakeslee: That is right.

Commissioner Van Namee: So

when it actually isn't available.

The companies furnished data comparing the numbers of meters in use and gas sold during each month of the twelve months' periods ending in May, 1941, and May, 1942. The schedule "General Service S. C. No. 1" probably has no space-heating customers while under schedule No. 3 gas is used for water heating or space heating by residential consumers. It is impossible to separate but the space-heating alone, however, because the schedules also cover water heating.

The data shows that the number of customers attached and the gas taken by these customers has increased in the last two years. It is to be noted that the increase in thousand cubic feet is greater under S. C. No. 3 than under No. 1, and also that there is a steady

Comparison of Average Number of Meters in Use and Gas Sold in M Cu. Ft.
during 12-month Period ending May, 1941, and May, 1942

	1940-41		1941-42		Increase	
	Average Meters	M Cu. Ft.	Average Meters	M Cu. Ft.	Average Meters	M Cu. Ft.
Long Island Lighting Co.	56,115	1,347,160	59,965	1,368,891	3,850	21,731
Nassau & Suffolk Light Co. ..	39,087	873,782	41,653	889,322	2,566	15,540
Queens Boro G. & E. Co.	30,246	879,307	31,663	876,037	1,417	(3,270)
Service Classification Nos. 1, 2, 4, 5, and 6						
Long Beach Gas Co.	4,953	134,842	5,128	134,518	175	(324)
Residential and Commercial Heating Service S.C. No. 3						
Long Island Lighting Co.	7,545	1,127,620	8,289	1,221,250	744	93,630
Nassau & Suffolk Light Co. ..	2,429	376,589	2,679	416,706	250	40,117
Queens Boro G. & E. Co.	1,592	358,061	1,724	356,320	132	(1,741)
House Heating Service S.C. No. 3						
Long Beach Gas Co.	21	7,053	32	7,795	11	742

() Indicates negative or red figure

that as to the question of whether it would exceed the capacity, that can be determined from Exhibit 14, can it not?

Witness: Yes, sir. There are certain days when that much capacity is scarcely available and certain days

growth in number of meters under S. C. No. 3.

The companies furnished the following data comparing the number of meters through which space-heating service was applied under the Residential and Commercial Heating Serv-

RE LONG ISLAND LIGHTING CO.

ice Rate S. C. No. 3 as of the heating seasons ending May, 1941, and May, 1942:

	May 1941	May 1942	In- crease
Long Island Lighting Co.	1,660	1,893	233
Nassau & Suffolk Light- ing Co.	700	808	108
Queens Boro G. & E. Co.	750	829	79
Long Beach Gas Compa- ny, Inc.	28	36	8
Total	3,138	3,566	428

The above total of 3,566 meters for all companies does not give the total number of heating units installed because many stores, garages, bowling alleys, skating rinks, etc., have several units served by one meter.

This data indicates that it is the Heating Service S. C. No. 3 which is chiefly accountable for an increase of gas sold in the season of 1941-42.

There are certain war industries in the territory of these companies entitled to priorities under the present rules of the Priorities Board, and there have been inquiries on actual installations where the companies have been called upon to supply additional gas and there are pending two or three large installations which would be in the nature of a new draft of the gas supply. It is the opinion of Mr. Carpenter that in view of the restrictions on material deliveries by reason of presently effective priority orders and the amount of gas as expected to be furnished to war industries in this territory, that this company cannot, with safety and without exceeding the capacity of the plants, take on new space-heating business.

Discussion

The companies appear to have sufficient gas capacity to supply existing

customers and also reserve capacity for some increased demand from industrial customers producing goods for war purposes.

If, as a result of a sharp upward trend following the addition of a considerable amount of new space-heating load, it should become necessary to provide for a greater supply of gas either by augmenting existing gas production facilities or by the establishment of interconnections with other sources, it is doubtful if these measures could be effected in time to alleviate a critical situation. It must also be borne in mind that the requisite materials for such construction are subject to priorities and this must of necessity depend upon their current availability and the degree of importance attached to the project by the War Production Board. Moreover, such additional plant facilities might constitute an unreasonable burden on general customers after the present emergency is past. In addition, the possibility of future difficulties in securing adequate supplies of basic gas-making materials is one that cannot be ignored.

An alternative measure would be to reduce the quantity of gas to all space-heating installations when the sources of supply are unable to meet the demands of the system. This, however, would be a hardship to customers now supplied with gas space heating as well as to those customers who may subsequently be supplied with this type of service but who now have heating facilities using fuel oil or coal. The latter customers, however, have the one important advantage in that conversion back to the original type of

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fuel might be effected more readily should their gas supply be curtailed.

It would appear therefore that the most reasonable method of meeting the present emergency and which would cause the least hardship to the general public is the proposal to supply gas service only to existing house-heating equipment of customers and to decline to supply such service to new customers.

Recommendation

In view of the facts developed in this record and under the circumstances created by the National Emergency and the important need for gas production for war purposes in such plants now served by this company, I believe that the companies' proposed special provision to its rate schedules restricting use of gas for space-heating purposes amended to read as follows:

In the interest of National Defense, on and after the effective date of this leaf, gas service will not be supplied either to new customers or to additional equipment of existing customers for the heating of premises either as space heating or by a central installation, except to those business establishments directly engaged in war production, provided the facilities of the company are adequate to supply such war production service. When the facts establish with reasonable certainty that the customer has connected additional building heating equipment after the effective date hereof, the company will discontinue service, upon such notice as is or may be required by law, or order of the Commission, until the additional building heating equipment has been disconnected.

And that the same be allowed to go into effect and that the proceedings be closed.

SECURITIES AND EXCHANGE COMMISSION

Re W. H. Duff et al., Voting Trustees for Class A Common Stock of Peoples Light & Power Company

[File No. 30-87, Release No. 3730.]

Intercompany relations, § 19.21 — Holding company registration — Termination of voting trust.

1. An application by voting trustees, pursuant to § 5(d) of the Holding Company Act, 15 USCA § 79e(d), for an order declaring that they have ceased to be a holding company should be granted when the trustees have terminated the voting trust agreement in accordance with its terms and no longer hold with power to vote 10 per cent or more of the total voting securities of the registered holding company, p. 140.

RE DUFF

Intercompany relations, § 19.21 — Termination of holding company status — Voting trustees — Condition as to vote.

2. An order declaring that voting trustees have ceased to be a holding company, pursuant to § 5(d) of the Holding Company Act, 15 USCA § 79e (d), should be granted subject to the condition that the voting trustees shall not vote the remaining shares outstanding in their names, p. 140.

[August 10, 1942.]

APPPLICATION for order declaring that voting trustees have ceased to be a holding company pursuant to § 5(d) of the Holding Company Act; granted subject to conditions.

APPEARANCES: George S. Munson, of Townsend, Elliott & Munson, for the applicants; Louis F. Davis and Ella Jay Sturgell for the Public Utilities Division of the Commission.

By the COMMISSION: W. H. Duff, Henry A. Erhard, Gerald P. Kynett, M. Harry Taylor, and John M. Taylor, voting trustees¹ under a voting trust agreement dated February 9, 1938, for Class A common stock of Peoples Light and Power Company, a registered holding company, and who controlled more than 10 per cent of the voting securities of the company, registered as a holding company on June 1, 1938, under the Public Utility Holding Company Act of 1935. On June 16, 1942, said voting trustees filed an application pursuant to § 5(d) of the act, 15 USCA § 79e(d), requesting an order declaring that they have ceased to be a holding company.

Pursuant to appropriate notice, a public hearing was held. Having considered the record in this matter, the

Commission makes the following findings:

Origin of Voting Trust Agreement

Pursuant to the provisions of a plan in proceedings for reorganization number 1084 in bankruptcy in the district court of the United States for the district of Delaware, the voting trustees held all (62,520) the shares of Class A common stock² (entitled to one vote per share) of Peoples Light and Power Company (being the new company referred to in said plan) against which were issued voting trust certificates under a voting trust agreement dated as of February 9, 1938.

Termination of Voting Trust

The voting trust agreement was terminated in accordance with its terms³ on April 1, 1941, when Peoples Light and Power Company called all the collateral lien bonds, series A, due 1961, for payment. Since April 1, 1941, the voting trustees, through the Provident Trust Company of Phila-

¹ Notification of registration in the names of W. H. Duff, Henry A. Erhard, Gerald P. Kynett, David Soliday, and John M. Taylor was filed May 7, 1937. Subsequently, David Soliday resigned, being replaced by M. Harry Taylor.

² The plan also provided for the issuance of 83,201 shares of Class B common stock which was entitled to one vote per share.

³ Article 8 of the voting trust agreement provides in part "that the voting trust agreement shall continue in force until February 8, 1948, or until such time, prior to said date, either (a) . . . or (b) when all said bonds shall have been paid or moneys specifically set aside in trust for the payment thereof, and shall then cease and determine."

SECURITIES AND EXCHANGE COMMISSION

delphia Depositary of Class A shares of common stock, have been exchanging voting trust certificates for the certificates evidencing the equivalent number of shares of Class A stock, and have been successful in exchanging approximately 92 per cent of such certificates.⁴ The record indicates that as of July 7, 1942, only 10,348 shares of Class A common stock of Peoples Light and Power Company, or less than 10 per cent of the total voting securities of Peoples Light and Power Company, were evidenced by voting trust certificates, the remainder of the outstanding Class A common stock (consisting of 52,172 shares) having been surrendered.

One of the provisions of the voting trust agreement grants⁵ the voting trustees a residual power to vote the unexchanged Class A shares of common stock, after the termination of said voting trust for specified limited purposes (if permitted by law). We believe that the public interest and the interest of investors requires that the voting trust be terminated in all respects. The record shows that counsel for trustees indicated a reluctance to surrender the residual power to vote, in the absence of specific authority. However, the trustees have stated that they would not object to a condition in the order declaring they have ceased to be a holding company, which will provide that the voting trustees may not exercise their residual power to

vote the unexchanged Class A common shares. Accordingly, such a condition will be attached to our order.

Conclusion

[1, 2] The voting trust having been terminated, and the voting trustees no longer having power to vote 10 per cent or more of the voting securities of Peoples Light and Power Company, and taking into consideration the other factors involved herein, the Commission finds that applicants are entitled to an order declaring that they have ceased to be a holding company subject, however, to the following condition:

That said voting trustees shall not vote at any time the remaining Class A shares of common stock outstanding in their names.

An appropriate order will issue.

ORDER

W. H. Duff, Henry A. Erhard, Gerald P. Kynett, M. Harry Taylor, and John M. Taylor, voting trustees under voting trust agreement dated February 9, 1938, for Class A common stock of Peoples Light and Power Company, a registered holding company, having filed an application pursuant to § 5(d) of the Public Utility Holding Company Act of 1935 requesting that applicants be declared that they have ceased to be a holding company; and

A public hearing having been duly

⁴ The depositary has indicated a willingness to file progress reports at frequent intervals on their efforts in locating the holders of the unexchanged voting trust certificates.

⁵ Article 9 provides in part that "at any meeting of the stockholders of the corporation held after the termination of this voting trust, the voting trustees may, if permitted by law, but shall not be required to, vote in respect of

any shares of Class A common stock of the corporation then standing in their names on the books of the corporation, deliverable to the holders of voting trust certificates who shall not have presented their certificates for exchange for stock certificates . . . with like effect as if this voting trust had not been terminated."

RE DUFF

held on said application after appropriate notice and the Commission having made and filed its findings and opinion herein;

It is *ordered* that said applicants have ceased to be a holding company and that the registration of said vot-

ing trustees cease to be in effect, subject, however, to the following condition: That said voting trustees shall not vote at any time the remaining Class A shares of common stock outstanding in their names.

SECURITIES AND EXCHANGE COMMISSION

Re Denis J. Driscoll et al., As Trustees of Associated Gas & Electric Corporation

[File No. 59-32, Release No. 3729.]

Intercompany relations, § 19.3 — Integration of holding company system — Divestment of nonretainable properties.

1. An immediate order to divest a holding company of properties before considering what other properties are retainable under § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1) is appropriate where trustees of the holding company, respondents in proceedings under § 11(b)(1), make no claim and submit no evidence that the properties involved may be retained under the standards of § 11(b)(1) and where such properties clearly do not fulfill such standards, p. 143.

Intercompany relations, § 19.3 — Integration of holding company system — Divestment of nonretainable properties — Effect of pending tax legislation.

2. Pending Federal tax legislation is not a factor relevant to a proposed order for divestment of scattered properties of a registered holding company under § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), p. 144.

[August 13, 1942.]

PROCEEDING under § 11(b)(1) of the Holding Company Act;
divestment of properties ordered.

APPEARANCES: Allen E. Throop, Henry F. Hartmann, and David D. Watkins, for the respondents; Stanley Clarke, Trustee of Associated Gas and Electric Company; Jack Lewis Kraus, II (David C. Colladay and William L. Grossman, of Counsel),

for the General Protective Committee for Security Holders of Associated Gas and Electric Company (limited to the fixed interest obligations of the said company); Hays, Wolf, Schwabacher & Sklar, Scribner & Miller, and Ralph Montgomery Arkush, for

SECURITIES AND EXCHANGE COMMISSION

various committees for Associated Gas and Electric Corporation bond and debenture holders; J. J. Lauder-milch, appearing as an observer for Pennsylvania Public Utility Commission; Davis, Polk, Wardwell, Gardiner & Reed (by Langdon Van Norden), for the Guaranty Trust Company; Lynne A. Warren and Charles P. McGroddy, Jr., for Utility Employees Security Company; Paul S. Davis and Morris L. Forer, for the Public Utilities Division of the Commission.

By the COMMISSION: This proceeding under § 11(b)(1) of the Public Utility Holding Company Act of 1935, 15 USCA § 79k(b)(1), was instituted by a notice of and order for hearing issued by the Commission on September 4, 1941, and directed to Denis J. Driscoll and Willard L. Thorp, as trustees of Associated Gas and Electric Corporation, a registered holding company.¹ Driscoll and Thorp are trustees appointed in proceedings for the reorganization of the corporation, pursuant to Chap. X of the Bankruptcy Act, by the United States district court for the southern district of New York.² As trustees, Driscoll and Thorp are registered as a holding company under § 5 of the Holding Company Act, 15 USCA § 79e.

The notice of and order for hearing was based upon an examination by the Commission of the holding company system of Associated Gas and Electric Corporation,³ and set forth various

factual allegations and tentative conclusions. These were to the effect that the public utility properties of the Associated Gas and Electric Corporation system constitute more than a single integrated public utility system, as defined by § 2(a)(29) of the act, 15 USCA § 79b(a)(29), and more than an aggregate of a single integrated public utility system and integrated public utility systems additional thereto which may be retained by the corporation under § 11(b)(1) of the act; that the major assets of the holding company system are located in New York and Pennsylvania; and that the principal or single integrated public utility system, if any, is located in New York or Pennsylvania.

The notice and order further alleged that under clause (B) of § 11(b)(1) the corporation cannot retain any interest in public utilities located in the following states: Maine, Indiana, Illinois, Virginia, Kentucky, North Carolina, South Carolina, Georgia, Florida, Louisiana, Arkansas, Missouri, Oklahoma, Arizona, and in the Philippine Islands. Utilities located in Tennessee and Texas were added to this list by our amended order and notice of September 11, 1941.

We further expressed our tentative opinion that if the principal or single integrated utility system is located in New York, no interest in the public utilities operating in Delaware, West Virginia, Maryland, or Ohio can be

¹ Holding Company Act Release No. 2983 (September 4, 1941). All references hereinafter made to Associated Gas and Electric Corporation shall be construed, unless the context indicates otherwise, to refer to Denis J. Driscoll and Willard L. Thorp, as trustees of Associated Gas and Electric Corporation.

² All of the common stock of Associated Gas and Electric Corporation is held by Stanley

Clarke, as trustee of Associated Gas and Electric Company. The latter company is also undergoing reorganization under Chap. X of the Bankruptcy Act in the United States district court for the southern district of New York. Clarke was permitted to intervene as a party in the present proceedings.

³ A corporate chart as of June 30, 1942, is annexed as Appendix A [omitted herein].

RE DRISCOLL

retained under clause (B) of § 11(b) (1); that, on the other hand, if the principal or single integrated utility system is located in Pennsylvania, no interest in public utilities operating in Connecticut or Vermont can be retained; that under clauses (A) and (C) of § 11(b)(1) the corporation cannot retain any interest in public utilities located in Connecticut, Ohio, Delaware, Vermont, Maryland, or West Virginia.

Finally, the order alleged that certain businesses in the system other than public utilities are not reasonably incidental, or economically necessary or appropriate to the operations of any of the electric or gas utility systems located in New York, Pennsylvania, or New Jersey and cannot be retained.

The trustees of Associated Gas and Electric Corporation have admitted in their answer the substance of these allegations, with certain exceptions not here relevant, and have indicated their intention and willingness to dispose of nearly all the scattered properties. Hearings have been held on the issues raised in our notice and order and, except for minor matters not here relevant, the record has been closed.

[1] As set forth in their answer and in this record, the trustees' program contemplates the elimination of Associated Gas and Electric Corporation and a complete reorganization of the present system. From existing properties, they propose to carve four separate integrated utility systems and to dispose of each of them separately, either by distribution to security holders or otherwise. The four systems, together with certain additional integrated systems and incidental businesses which the trustees have alleged

may be retained therewith, have been designated as follows:

1. New York-Northern Pennsylvania Group
2. Eastern Pennsylvania-New Jersey Group
3. Western Pennsylvania Group
4. Florida-Georgia Group

All the scattered properties, listed in Appendix B [omitted herein] to this opinion, lie outside these four proposed groups and are admitted by the trustees to be nonretainable, under the standards of § 11(b)(1), either by the corporation or along with any of the four proposed groups. From the record, we find that the trustees do not claim that any of these scattered utility properties form any part of the four proposed groups or that the scattered nonutility properties are businesses reasonably incidental, or economically necessary or appropriate to the operation of any such systems. Furthermore, assuming any of the utilities in the four groups to constitute a principal system, a mere glance at the map showing the location of the scattered utility properties demonstrates the nonretainability of a great majority of them under the standards of clause (B); and no claim has been made and no proof has been offered that any of the scattered utility properties form an additional integrated system retainable under the requirements of clauses (A) or (C) of § 11(b)(1).

We therefore deem it appropriate, in order to expedite the necessary geographic simplification of the Associated Gas and Electric Corporation system, immediately to enter an order requiring the trustees to divest themselves of all direct and indirect interests in the properties listed in Ap-

SECURITIES AND EXCHANGE COMMISSION

pendix B [omitted herein] to this opinion and lying outside the four systems proposed by the trustees.⁴ Such an order, of course, in no way indicates our approval of the proposed limits of any of the four groups which the trustees allege may be preserved intact; nor does it indicate the limits of any properties which may be retained by the trustees indefinitely. We propose to take up these matters after further consideration of the record and our order, therefore, will expressly reserve jurisdiction in these respects.⁵

[2] The trustees have offered no objection to the entry of the present order. However, the trustees and counsel for three committees for Associated Gas and Electric Corporation security holders have suggested that pending Federal tax legislation may result in higher taxes on the corporation and its security holders and that we should reserve jurisdiction in all orders issued in this proceeding under § 11(b)(1) to modify such orders in the light of any new Federal taxes that may be imposed. A motion and supporting memorandum filed by Stanley Clarke, trustee for Associated Gas and

Electric Company, along with a memorandum filed by counsel for the General Protective Committee for Security Holders of Associated Gas and Electric Company, go further and urge that no order of divestment whatever be issued at this time and that the Commission postpone its action pending enactment of the pending tax legislation and opportunity for introduction of further evidence thereafter.

We do not believe that pending tax legislation has any relevance whatever to the question whether the proposed order for divestment should issue under § 11(b)(1). We are charged by Congress with the duty of testing existing utility systems by the standards of § 11(b)(1) and "as soon as practicable" ordering whatever changes are necessary to make the systems conform to these standards. The present order merely makes it clear that certain properties cannot be kept under the statutory requirements.

An appropriate order will issue requiring the trustees to divest themselves of any direct or indirect interest in the companies specified in Appendix B of this opinion.

⁴ Certain of these properties are already subject to negotiations for sale or under contract for sale, as noted in Appendix B. [Omitted herein.]

⁵ Counsel for the trustees have suggested that the status and functions of certain of the companies in the system are in the process of being changed substantially and that for that reason no evidence with respect to such companies has been introduced into the record thus far made. Counsel for the trustees and for the Public Utilities Division have agreed that the record is not to be considered closed with respect to such companies and have requested that the Commission reserve jurisdiction subsequently to determine what action should be taken with respect to them. We think that we may properly grant that request. The

companies in question are Dover Casualty Insurance Company, Atlantic Utility Service Corporation, Trustees under Pension Trust Agreement dated December 14, 1937, Employees Welfare Association, Incorporated (Del.), Employees Welfare Association, Inc. (N. J.), Utilities Employees Securities Company, and Associated General Utilities Company. Inasmuch as there is some doubt as to whether the trustees desire that Rochester Gas and Electric Corporation be included within the proposed New York-Northern Pennsylvania system or be held by or under common control with such system as an additional system, we shall reserve jurisdiction to consider that question later. Nothing herein is to be construed as indicating any expression of our views on this matter.

Louisville Gas & Electric Company
v.
Federal Power Commission

[No. 8564.]

(129 F(2d) 126.)

Appeal and review, § 8 — Orders reviewable — Cost determination by Federal Power Commission.

1. An order of the Federal Power Commission determining the actual legitimate original cost of a federally licensed power project, disallowing certain items, and directing the licensee to conform its books and accounts accordingly is reviewable under § 313 of the Federal Power Act, 16 USCA § 825I, as an affirmative determinative order directing action, which is more than a mere finding, and which entails more than mere preservation of evidence, p. 148.

Appeal and review, § 6 — Orders reviewable — Failure to apply for rehearing — Time limitation.

2. The circuit court of appeals is without jurisdiction to review an order of the Federal Power Commission determining actual legitimate original cost of a federally licensed power project and directing the licensee to conform its books and accounts accordingly, if the licensee made no application for rehearing pursuant to § 313(a) of the Federal Power Act, 16 USCA § 825I (a), and the time limitation for seeking a review pursuant to § 313(b) has expired, p. 148.

Accounting, § 3 — Jurisdiction of Federal Commission — Assignee of power license.

3. A power company which has taken over from its subsidiary a Federal license for development of a power project is obligated to comply with the Federal Power Commission's accounting requirements under § 8 of the Federal Power Act, 16 USCA § 801, p. 152.

Accounting, § 3 — Jurisdiction of Federal Commission — Licensed power company — State jurisdiction.

4. The Federal Power Commission has authority to prescribe the accounting system of a federally licensed power company, notwithstanding that a state has required a like or a different system of accounts, p. 153.

Accounting, § 3 — Jurisdiction of Federal Power Commission — Original cost determination.

5. An order of the Federal Power Commission which, by directing accounting entries to conform with its determination of actual original cost of a licensed power project, is not arbitrary or beyond the scope of the Commission's authority, p. 153.

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Accounting, § 3 — Jurisdiction of Federal Commission — Original cost determination — Consequences to company.

6. The possibility of disastrous consequences to the value of securities of a federally licensed power company is not a valid objection to an order of the Federal Power Commission requiring a transfer to surplus of amounts disallowed as actual legitimate original cost of a power project, as it is not arbitrary or beyond the Commission's scope of authority to require that the value of capital assets for dividend or security valuation purposes shall be the same as for expropriation or recapture purposes, and be adequately disclosed from the beginning upon the books of the company, p. 154.

Accounting, § 11.1 — Confiscatory requirements — Transfer to surplus — Licensed power project.

7. A requirement by order of the Federal Power Commission that a federally licensed power company charge to surplus amounts disallowed as part of original cost of the project is in no sense a confiscation of the company's property, p. 154.

Constitutional law, § 20 — Due process — Hearing on accounting order.

8. A federally licensed power company is not denied due process of law by the entry of an order of the Federal Power Commission directing it to transfer to surplus amounts disallowed as part of the actual legitimate original cost of a power project, when such order is but a clarification of earlier orders determining cost and the company, although given full opportunity to show cause why the order should not be entered, requested no opportunity to present evidence, p. 155.

Constitutional law, § 20 — Due process — Hearing.

9. The Fifth Amendment of the Federal Constitution guarantees no particular form of procedure, and, in general, there is no warrant in assuming a failure to grant a fair hearing by the lack of a trial in the strict or formal sense, but the inquiry should be fitted in its range to the needs of the occasion, p. 155.

Appeal and review, § 74 — Introduction of additional testimony.

10. A motion to adduce additional testimony upon review of an order of the Federal Power Commission must be overruled when it is not shown that the additional evidence is material and that there were reasonable grounds for failure to adduce it in proceedings before the Commission, p. 155.

Evidence, § 3 — Judicial notice — Legislative history.

11. A court assumes authority judicially to notice the legislative history of the Federal Water Power Act, p. 155.

[June 29, 1942.]

PETITION for review of orders of the Federal Power Commission determining cost of a federally licensed power project and an order directing charging of disallowed amounts against earned surplus; petition dismissed in so far as it prayed review of orders determining cost, and later order affirmed. For Commission decision determining original cost, see (1933) 1 Fed PC 130, 1 PUR(NS) 454.

LOUISVILLE GAS & ELECTRIC CO. v. FEDERAL POWER COM.

APPEARANCES: Charles W. Milner, of Louisville, Ky. (George W. Norton, Jr., and B. Hudson Milner, both of Louisville, Ky., A. Louis Flynn and Helmer Hansen, both of Chicago, Ill., on the brief), for petitioner; Charles V. Shannon, of Washington, D. C. (Richard J. Connor, Wallace H. Walker, Louis W. McKernan, and Stanley M. Morley, all of Washington, D. C., on the brief), for respondent.

Before Hicks, Simons, and McAllister, Circuit Judges.

SIMONS, C. J.: The petitioner now considering itself aggrieved by three orders of the respondent, dated respectively October 31, 1933, 1 Fed PC 130, 1 PUR(NS) 454, September 30, 1937, and October 31, 1939, in view of the direction in the last order, petitions this court to annul and set them all aside. Preliminarily, or as an alternative it moves for leave to adduce additional evidence, and impliedly that the controversy be remanded to the Power Commission for the purpose of considering such evidence. The respondent, alleging that the court is without jurisdiction to review the 1933 and 1937 orders, on the ground that the petitioner did not apply for a rehearing on the second, or seek a court review of either, but, on the contrary, purported to comply, moves to dismiss the petition in respect to the review sought of the first and second orders.

The petitioner is a Kentucky corporation engaged in the electric and gas business in the city of Louisville. In 1925 it acquired, through an affiliate, the Louisville Hydro Electric Company, a license issued by the respondent

for Project 289. This project is located in the Ohio river at Louisville, and the Ohio being a navigable stream, construction therein was permissible only under license of the respondent in pursuance of the provisions of the Federal Water Power Act of June 10, 1920, 16 USCA § 791 et seq. The Louisville Hydro Electric Company at the time it applied for license, and during construction of the project, was affiliated with the petitioner. Subsequently it was dissolved and the project and license were transferred to the petitioner with the written approval of the Commission and subject to certain conditions, on October 17, 1934. Following completion of the project, Hydro, as required by § 4 of the act and Art. 17 of the license, filed a "verified initial cost statement" in which it claimed \$7,829,738.72 to be its actual legitimate original cost as of November 30, 1929.

The Commission made a detailed audit of all the data in support of the claim, and following a preliminary staff report thereon, and a hearing upon Hydro's protests before the full Commission, rendered an opinion and entered its first order determining the petitioner's original cost to be \$6,996,093.52, thus disallowing as part of original cost various items totaling \$833,645.20 claimed by Hydro, granting it leave, however, to submit additional evidence with respect to some of the disallowed items. The order is that of October 31, 1933, *supra*, the first of those here sought to be reviewed, and required the licensee to establish and maintain control ledger sheets or accounts with reference to the project, beginning with the entry of the amount found by the Commis-

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sion as its actual legitimate original cost, and to establish and maintain subsidiary ledger sheets, accounts, or records showing and substantiating all entries in the control account and classifying the total for fixed capital in appropriate detail and in accordance with the Commission's rules and regulations. The petitioner applied for a rehearing with respect to some of the disallowed items, and it being granted, the Commission entered its second order, that of September 30, 1937, increasing its determination of actual legitimate original cost to \$7,-218,188.67 and disallowing \$611,-550.05 of the amount claimed by the company as cost. The petitioner was again directed to conform its books and accounts accordingly. No application was made for rehearing on this second determination, and no review was sought of the 1933 order or of its modification by the 1937 order.

The petitioner undertook to comply with the order of September 30, 1937, and on September 12, 1938, advised the Commission that it had, by proper journal entries, and in conformity with its terms, adjusted its books to show the Commission's determination of actual original cost after transferring a minor item to a nonproject account.

On April 4, 1939, the Commission directed the petitioner to show cause why the amount of the disallowed items should not be transferred as a charge against the company's appropriate surplus account in accordance with its orders of October 31, 1933, and September 30, 1937, and the provisions of the uniform system of accounts prescribed for public utilities and licensees. To this the company

made response denying that it had failed to comply with the Commission's orders, and denying the authority of the Commission to require that the disallowed items be charged to surplus. It supported its denial by argument, but neither requested nor suggested further hearing nor indicated that it desired to introduce testimony. On October 31, 1939, the Commission adopted its third order, and finding that no cause had been shown as required, directed the petitioner to write off the sum of \$601,937.57¹ against its earned surplus account. The petitioner applied for rehearing on December 4, 1939. This was automatically denied by the Commission's failure to act thereon for a period of thirty days, under the provisions of § 313 (a) of the Act, 16 USCA § 8251(a). The present petition for review to this court followed.

[1, 2] The first question presented relates to the scope of the review and is raised by the Commission's motion to dismiss the petition in so far as it prays review of the 1933 and 1937 orders. Section 313(a) precludes review of an order of the Commission unless the petitioner has made application for a rehearing, and § 313(b) limits the time of review to the sixty-day period following the entry of an order upon an application for rehearing. The Commission therefore contends that since there was no petition for rehearing filed in respect to the 1937 order, and no timely court review sought of either the 1933 or 1937 orders, we are without jurisdiction to consider them. The petitioner re-

¹ The difference between this and the earlier figure represents the item transferred to a nonproject account.

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sponds that the first two orders of the Commission did not adversely affect it and would not affect it unless and until the determination contained therein was in some way used to its detriment, and that the petitioner therefore was not aggrieved and so had no right to appeal. Asserting that the Commission had jurisdiction to determine the net investment of a licensed project for specific purposes only, and since actual legitimate original cost was but one of the factors to be considered in arriving at net investment, and the time had not arisen when the Commission could use its determination for any purpose, it had, therefore, no objection to complying with the first two orders and entering the amounts specified in them as book-keeping entries even though it believed that the determinations were erroneous. It construed them as mere findings, directing no determinative action affecting its interests. It was only when the third order was entered which, for the first time, specifically directed the disallowed amounts to be charged to surplus, that the petitioner considered itself aggrieved and so entitled to a court review. It now contends that all questions relative to the Commission's adjudication of actual legitimate original cost may here be reviewed as well as the authority of the Commission to direct disallowed items to be charged to surplus.

In support of its contention that the first two orders of the Commission were not appealable, it points to the limited statutory purposes of the Commission's determination of actual legitimate original cost. 16 USCA § 803 (d), provides that "after the first twenty years of operation, out of sur-

plus earned thereafter, if any, accumulated in excess of a specified reasonable rate of return upon the net investment of a licensee in any project or projects under license, the licensee shall establish and maintain amortization reserves, . . ." Since Project 289 was put into operation in 1928, the jurisdiction of the Commission to use its finding for the purpose of determining amortization reserves does not apply until 1948. Section 807 gives the United States the right to recapture or purchase the licensed project at the expiration of the license upon payment of an amount equal to the net investment of the licensee, but not to exceed the fair value of the project, and net investment is to be determined by agreement between the Commission and the licensee, or, in case agreement fails, by proceedings in equity instituted by the United States. The license having been issued in 1925 for a term of fifty years, the government cannot purchase or recapture the property until 1975, so that determination of original cost by the Commission upon completion of the project is no more than preservation of evidence useful only when the license has expired. A third purpose for the utilization of the Commission's findings is indicated by § 809 which provides that when, in the opinion of the President, the safety of the United States demands that it take over a licensed project, the United States has such right upon payment of just and fair compensation for the use of the property. So it is argued that the Commission's finding of original cost is again merely evidence of one element to be considered in determining what this compensation shall be. Therefore, it is its view that

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since the Commission's first two orders were mere findings of cost which would materially affect the interest of the petitioner only when the time arrived at which they would be given effect for amortization purposes, recapture by the government, or the taking of the property in a national emergency, the petitioner was not aggrieved and had no right of appeal. *United States v. Los Angeles & S. L. R. Co.* 273 US 299, 71 L ed 651, PUR 1927B 357, 47 S Ct 413; *Rochester Teleph. Corp. v. United States* (1939) 307 US 125, 83 L ed 1147, 28 PUR (NS) 78, 59 S Ct 754.

If this contention, in any respect, be valid, it overlooks some of the express provisions of the act and the clear implications of other provisions. By § 10(e), 16 USCA § 803(e), excessive profits of a licensee may be expropriated to the government by increasing the annual charges paid by it. It would seem, therefore, that a determination of net investment of which original cost is the basic element, should be available to the Commission, for the application of this provision, from the very beginning and affects materially the interests of the licensee. It is not without importance that the act, 16 USCA, § 797, requires the licensee to file with the Commission, data bearing on actual legitimate original cost of construction within a reasonable period of time to be fixed by the Commission after the construction of the original project. There is implicit in this provision the need of an early determination to proper enforcement of the act, and the exercise of the regulatory powers of the Commission. While adjudication may not in some respects be applicable

45 PUR(NS)

until after the lapse of years, in other aspects it may instantly become of highest importance. This must be so when the safety of the United States requires. Bitter experience has demonstrated that threats to national safety do not always proclaim their coming in advance, and the need for use by the government of power projects may suddenly appear. In this situation choice between one project and another immediately and peremptorily required, may rest upon comparative adjudications of cost of construction or net investment.

In *Federal Power Commission v. Metropolitan Edison Co.* (1938) 304 US 375, 384, 82 L ed 1408, 24 PUR (NS) 394, 399, 58 S Ct 963, 967, the Supreme Court had occasion to consider the nature of orders of the Commission which are subject to review under § 313(b), and concluded: "The provision for review thus relates to orders of a definitive character dealing with the merits of a proceeding before the Commission and resulting from a hearing upon evidence and supported by findings appropriate to the case." Mere preliminary or procedural orders are not within statutes providing for review by the circuit court of appeals, and so attempts to enjoin administrative hearings and obtain judicial relief before the prescribed administrative remedy has been exhausted, have been held to be at war with long settled rules of judicial administration. The Commission's order in the Edison Case, however, merely fixed a date for hearing, required respondents to appear, and produce information and documents. It was no more than a notice. The first orders of the Commission in the

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present case, however, were final adjudications of an essential element in controversy, and directed affirmative action of an important nature to be taken by the petitioner.

In the Rochester Telephone Case, *supra*, the Communications Commission had declared the Rochester company to be a corporation subject to its jurisdiction, and ordered it to comply with previous general orders requiring telephone companies to furnish detailed information as to their affairs. It was there held that the order was not a mere abstract declaration regarding status, nor a stage in an incomplete process of administrative adjudication. The contested order necessarily and immediately carried direction of obedience to previously formulated mandatory orders addressed generally to all carriers amenable to the Commission's authority, and so the order was held to be reviewable. So here the direction of the Commission that the licensee establish accounts showing a debit balance in its fixed capital assets was an affirmative, determinative order directing action, was more than a mere finding, and its mandate entails more than mere preservation of evidence. Compare *East Ohio Gas Co. v. Federal Power Commission* (1940) 115 F (2d) 385, 38 PUR(NS) 397.

So far we have not considered the Commission's argument hereafter to be dealt with, that there is implicit in the first orders of the Commission a direction that disallowed items be charged to surplus because only by such charge may there be conformity with sound accounting practice. If there be validity to this argument the petitioner has, as will later be seen,

completely demonstrated its grievance, and so the reviewability of the first orders. Without considering this view, however, in respect to the present phase of the case, we conclude that the first orders of the Commission were reviewable under § 313, that no review having been sought and the time for such review having expired, we are without jurisdiction to entertain a challenge either to the finding of the Commission upon actual legitimate original cost of Project 289, or to the Commission's direction for the incorporation of the result in the books and records of the petitioner, and that the Commission's motion to dismiss the petition in so far as it prays for review of the 1933 and 1937 orders, must be granted.

We arrive, therefore, at a consideration of the petition to review the 1939 order of the Commission which the petitioner designates as the principal order appealed from. Its challenge is based on many grounds. It demonstrates its grievance, in the first place, resulting from the requirement that it charge disallowed items to surplus, by asserting that such charge will affect its credit, the market price of its securities, and the interest that it might be required to pay for bank loans. In addition, such charge will result in understating the cost of its property to it, may seriously affect a purchaser's opinion of the value of its security, and deprive it of reserves which may become necessary to take care of unforeseen losses. Its grievance thus asserted, it then assails the order as being beyond the scope of the Commission's authority under the act. It asserts that the Commission has no jurisdiction over its rates, services, or

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securities, nor over its accounts and accounting system, and finally, that the order is void because it constitutes confiscation of its property, and likewise void for want of due process in failure to grant a hearing upon its petition to the Commission for rehearing.

In urging that the Commission has no jurisdiction over rates, services, or securities, the petitioner points to § 19 of the 1920 act, 16 USCA § 812, which limits jurisdiction over rates, services, or securities, to those utilities which are not being regulated by a state Commission, and provides that the jurisdiction of the Federal Power Commission shall cease and determine as soon as the state has provided a Commission or other authority for the regulation and control of these matters. The petitioner, it asserts, is not within the limitation because Kentucky has such a Commission which is actually regulating its rates, services, and securities, as well as its accounting system. It points also to the fact that § 20 of the 1920 act (16 USCA § 813), limits jurisdiction over power to that which enters into interstate or foreign commerce, and to situations where either there are no state Commissions or the state Commissions of respective states are unable to agree. The act further provides that determinations of value are to be governed by the same procedure and practice as is used with regard to railroads, and so such value is not limited when considered as a base for rate making to original cost or net investment. Rates must be such as to allow a return on fair value, in the determination of which there must be included all elements of value recognized by the law of

the land for rate-making purposes. Thus the conclusion is urged upon us that, since the Commission's determination of actual legitimate original cost or net investment, was but for the purpose of setting up amortization reserves after 1948, the purchase or recapture by the government after 1975, or an emergency taking-over of the petitioner's property, there is no jurisdiction in the Commission over rates, services, or securities of a purely intrastate utility because the Commission has no authority in such matters. Finally, it is said that while the 1920 act gave the Commission jurisdiction to prescribe a system of accounts for licensees, 16 USCA § 797, this provision was eliminated from the 1920 act when it was amended in 1935.

[3] Since Kentucky has a Commission which regulates rates and services, it may be conceded that the Federal Power Commission has no present authority in this respect. It does not, however, follow that the Commission is without jurisdiction to regulate and control the petitioner's system of accounts and to require it to make effective its finding of actual original cost or net investment. The petitioner, in respect to Project 289, is a licensee of the government. Questions of value, for purposes of amortization, recapture, or taking over, are not those which apply for rate-making purposes to utilities stemming from private investment in preregulatory periods or to those initiated by private enterprise without contribution of necessarily vital power by government conditioned upon compliance with the terms of the grant. As pointed out in *United States v. Appalachian Electric Power Co.* (1940) 311 US 377,

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424, 85 L ed 243, 36 PUR(NS) 129, 146, 61 S Ct 291, 307, "Possessing this plenary power to exclude structures from navigable waters and dominion over flowage and its product, energy, the United States may make the erection or maintenance of a structure in a navigable water dependent upon a license." The subsidiary of the petitioner sought and obtained such license, and the act (§ 301, 16 USCA § 825) requires every licensee to keep its accounts in the manner prescribed by the Commission. The license incorporated an obligation to do so. Moreover, the petitioner, in taking over the license from its subsidiary, could acquire it only with the consent and approval of the Commission, and such approval was conditioned upon the petitioner's express agreement to comply with the Commission's accounting requirements under § 8 of the act, 16 USCA § 801.

[4, 5] While § 4(f) of the 1920 act was repealed by the 1935 act, 16 USCA § 797(f) note, the Commission's authority over the accounting system of a licensee did not disappear. Section 301(a) of the 1935 act provides that every licensee and public utility shall make, keep, and preserve for such periods such accounts, records of cost accounting procedures, etc., as the Commission may, by rules and regulations, prescribe. Furthermore, the provision that nothing in the act should relieve a public utility from keeping such accounts as are required by the laws of the state, impliedly, if not expressly, discloses a purpose that the Commission shall prescribe such accounting system, notwithstanding that the state has required a like or a different system of

accounts. It may be granted that acceptance of a license in the first instance, and of the Commission's later consent to its transfer, both granted upon condition that the licensee shall abide by the orders of the Commission in respect to accounting, does not oblige the petitioner to comply with arbitrary or capricious orders of the Commission, or such as are clearly beyond the scope of its authority. It does not follow, however, that an order of the Commission which makes available for all purposes, both present and prospective, the actual original cost of the licensed project or the licensee's net investment therein, is arbitrary or beyond the scope of the Commission's authority. Nor does it follow that the Commission may not give consideration to the broad general purposes of the act which clearly contemplated not only the protection of the public interest generally, but likewise the interest of the consumer and the investor.

While the provisions for the amortization, recapture, or taking over of the licensed project, establish the basis for exhaustion of value or compensation to the utility of its net investment therein, it is clear, from § 3(13) of the act, 16 USCA § 796(13), that net investment is but actual original cost extended to the time of expropriation by fitting adjustments. These adjustments comprise the addition of betterments, and the elimination of surplus, depreciation, and amortization or other reserves set up out of earnings in excess of a fair return or additions and betterments paid for out of excess earnings. In other words, if the construction project were taken over immediately after completion, actual le-

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gitimate cost and net investment would be identical. If taken over after a period of operation, the licensee is entitled to a fair return on net investment, but no more. So it seems clear that it was the purpose of the act that excessive earnings should neither be preserved nor concealed in surplus, sinking fund, or other reserves. Otherwise there would be no point in providing that the data, with respect to actual original cost, be furnished and acted upon within a reasonable time after construction is completed.

[6] The argument that the wiping out of a large part of the petitioner's surplus will result in disastrous consequences to the value of its securities, necessarily concedes that a like result will follow whenever, under the recapture or emergency provisions, the finding of net investment of the licensee in the project is finally made effective. Indeed, the consequences may then be much more serious, for the investing public will then be lulled into a false sense of security by the passing of time. It, therefore, is not arbitrary nor beyond the Commission's scope of authority to require that the value of capital assets for dividend or security valuation purposes, shall be the same as for expropriation or recapture purposes, and be adequately disclosed, from the beginning, upon the books of the petitioner. As one court expressed it, disallowed items should not be permitted "to assume the nature of vested interests." *Clarion River Power Co. v. Hurley*, 59 Wash Law Rep 106, 108.

The view we take of the act in respect to the scope of the Commission's authority to direct the charge to surplus of disallowed cost items is sub-

stantially that taken by other courts which have dealt with the same or related problems. *Clarion River Power Co. v. Smith*, 61 App DC 186, PUR 1932E 149, 59 F(2d) 861, certiorari denied (1932) 287 US 639, 77 L ed 553, 53 S Ct 88; *Alabama Power Co. v. McNinch* (1937) 68 App DC 132, 21 PUR(NS) 225, 94 F(2d) 601; *Northern States Power Co. v. Federal Power Commission* (1941) 118 F(2d) 141, 39 PUR(NS) 23; *Alabama Power Co. v. Federal Power Commission*, — App DC —, 44 PUR(NS) 197, 128 F(2d) 280, decided March 30, 1942. The effort to differentiate these cases in the respect herein considered is wanting in persuasiveness. In general, it has been held to be entirely reasonable for the Commission, in order properly to perform its duties, to direct elimination of items found not to constitute real assets and to establish uniform accounting. This is the necessary implication of the act. Nor does this authority relieve the licensee from keeping accounts under authority of state law. The Commission and the state regulatory body each acts within its own field. *Northern States Power Co. v. Federal Power Commission*, *supra*.

[7] Clearly, the required charge to surplus is in no sense a confiscation of the petitioner's property when we keep in mind that what is involved is a licensed project not only subject to accepted conditions of amortization, recapture, or taking over, but subject also to revocation of the license if certain of its conditions are not complied with. It was assumed, though without decision, in *United States v. Apalachian Electric Power Co.*, *supra*,

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311 US at p. 427, 36 PUR(NS) at p. 148, that "by compulsion of the method of acquisition provided in § 14 of the Power Act and the tendered license, these riparian rights may pass to the United States for less than their value. In our view this 'is the price which (respondents) must pay to secure the right to maintain their dam.' " This is from the conclusion reached in *Fox River Paper Co. v. Railroad Commission* (1927) 274 US 651, 71 L ed 1279, 47 S Ct 669, which the court now declares is decisive on the issue of confiscation.

[8, 9] Finally, there is no merit to the contention that the petitioner has been denied due process of law. The 1939 order was but a clarification of the earlier orders. The petitioner was given full opportunity to show cause why it should not be entered. It had already been advised of a judicial determination in *Clarion River Power Co. v. Hurley*, *supra*, that the scope of the Commission's authority included power to direct that disallowed items of cost should not be retained in capital accounts. It should have understood that the finding of the Commission must have been intended by the act as something more than mere futility, ineffective upon the petitioner's books of account except to preserve evidence for use in a far distant future. The petitioner made its response to the order to show cause. It must be assumed that the response was as full and complete as it considered possible or appropriate. It requested no opportunity to present evidence, and the factors that had led to the original orders had already been fully considered. The Fifth Amendment

guarantees no particular form of procedure, *National Labor Relations Board v. Mackay Radio & Teleg. Co.* (1938) 304 US 333, 351, 82 L ed 1381, 58 S Ct 904, and in general there is no warrant in assuming a failure to grant a fair hearing by the lack of a trial in the strict or formal sense. The "inquiry [should be] so fitted in its range to the needs of the occasion." *Escoe v. Zerbst* (1935) 295 US 490, 79 L ed 1566, 55 S Ct 818, 820. Such inquiry was made and full opportunity was given to the petitioner to support its position.

[10, 11] The petitioner's motion for leave to adduce additional testimony must be overruled because of its failure to qualify under 16 USCA § 8251(b) of the act which requires that it shall show, to the satisfaction of the court, that the additional evidence is material, and that there were reasonable grounds for failure to adduce it in proceedings before the Commission. The evidence now offered concerns itself mainly with the legislative history of 16 USCA § 791a et seq., and data in respect to the petitioner's affairs and relations with the Public Service Commission of Kentucky. As to the first we assume authority judicially to notice it, and have done so. But as to both, even were the offer timely, it does not clearly appear that the new evidence would compel or persuade to a contrary result, in view of the statutory mandate that the findings of the Commission as to facts, if supported by substantial evidence, shall be conclusive. In any event, no good reason appears why this evidence could not earlier have been submitted to the Commission.

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The petition is dismissed in so far as it prays review of the first and second orders of the Commission, and the 1939 order is affirmed.

SECURITIES AND EXCHANGE COMMISSION

Re Community Power & Light
Company et al.

[File No. 70-282, Release No. 3676.]

Intercorporate relations, § 19.8 — Simplification of system — Order of approval — Disposition of properties.

1. An order approving a plan for simplification of a holding company system, pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), will specifically require that nonretainable properties acquired pursuant to the plan be disposed of within one year unless such time be extended by order of the Commission, p. 178.

Corporations, § 22 — Reorganization — Allocation of securities — Valuation.

2. A disparity in the proven earning power contributed to a merged enterprise by the stockholders of one holding company and that contributed by the stockholders of another holding company should receive greater weight than the disparity between the two contributions considered upon the basis of underlying book values, in a proceeding pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), wherein the fairness of the allocation of securities requires an examination into the relative contributions of the two sets of stockholders to the surviving corporation, p. 180.

Valuation, § 50 — Purpose of reorganization — Holding Company system.

3. Underlying book values and past earnings are not the sole criteria of value in determining the fairness of allocations of stock in a surviving corporation, pursuant to a reorganization plan under § 11(e) of the Holding Company Act, 15 USCA § 79k(e), but there must also be considered geographical location of properties, economic characteristics of territories served and the imminence or unlikelihood of changes in local economies upon which revenues are dependent, quality of income, localized economic trends, proximity of approach to customer saturation, and other pertinent factors not susceptible of arithmetical computation, p. 182.

Intercorporate relations, § 19.3 — Simplification of system — Submitted plan.

4. A plan submitted pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), for the simplification of a holding company system is necessary to effect the provisions of § 11(b) of the act (subject to approval of particular features as to which the record is not complete and subject to conditions and reservations of jurisdiction) when the proposed steps would achieve a closer approach to the statutory standards and place a surviving intermediate company in a better position to take such additional action as may be required to conform the system in all respects to the standards prescribed by the act, p. 184.

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Security issues, § 111 — Holding company simplification — Solicitation — Participation by investment houses and brokers.

5. To the extent that assistance of investment houses and brokers in connection with solicitation of assents of stockholders to a proposed plan submitted under § 11 of the Holding Company Act, 15 USCA § 79k, might be interpreted as subjecting such persons to disqualification from participation in underwriting and selling of securities to be issued and sold by a surviving corporation upon consummation of a proposed merger, under Rule U-62(g)(2)(A), the order approving the plan will exempt such persons, pursuant to Rule U-100, from such disqualification, p. 186.

Consolidation, merger, and sale, § 18 — Plan to comply with Holding Company Act.

Discussion of plan approved pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), for the merger of a registered holding company and two subsidiary companies, each being also a registered holding company and an operating utility company, whereby one subsidiary becomes the surviving corporation, p. 163.

Corporations, § 15 — Liquidation — Compliance with Holding Company Act.

Discussion of plan for liquidation of corporations in a holding company system as part of a plan submitted pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), p. 166.

Security issues, § 1 — Recapitalization — Compliance with Holding Company Act.

Discussion of capitalization and recapitalization involved in plan submitted for simplification of holding company system pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), p. 167.

Consolidation, merger, and sale, § 18 — Acquisition under simplification plan.

Discussion of acquisition of properties by a surviving corporation pursuant to a plan for simplification of a holding company system submitted under § 11(e) of the Holding Company Act, 15 USCA § 79k(e), p. 169.

Security issues, § 1 — Refinancing of surviving corporation — Holding company simplification.

Discussion of plans for refinancing a surviving corporation pursuant to a plan for simplification of a holding company system under § 11(e) of the Holding Company Act, 15 USCA § 79k(e), p. 173.

Accounting, § 8 — Surviving corporation in merger — Holding company simplification.

Discussion of property accounts in connection with a plan for simplification of a holding company system pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), wherein certain companies are merged, p. 174.

Security issues, § 99 — Capitalization ratios — Holding company simplification.

Discussion of ratios of securities to total capitalization and to properties and investments on various bases in connection with plan for simplification of holding company system pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), p. 175.

Intercompany relations, § 19.3 — Simplification of system — Fairness of plan.

Discussion of fairness of proposed plan for simplification of holding com-

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pany system pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), p. 178.

Intercompany relations, § 19.3 — Holding company simplification — Compliance with statutory requirements.

Discussion of compliance with statutory requirements additional to those expressly set forth in § 11(e) of the Holding Company Act, 15 USCA § 79k(e), in connection with the approval of a plan submitted pursuant to such section for simplification of a holding company system, involving intrasystem conveyances and transfers, capital contributions, acquisition and retirement of securities, assumption of liabilities, and solicitation of assents of stockholders, p. 180.

Accounting, § 7.6 — Reserve — Merger — Losses.

Requirement for creation of reserve account for application against such losses, if any, as may be realized upon sale of investments by surviving corporation under plan for simplification of holding company system pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), p. 185.

Dividends, § 6 — Restrictions — Simplification plan — Condition of approval.

Dividend restriction in connection with approval of plan for simplification of holding company system pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), p. 187.

[July 8, 1942.]

VOLUNTARY plan submitted pursuant to § 11(e) of the Holding Company Act; plan approved subject to conditions and reservations of jurisdiction.

APPEARANCES: Albridge C. Smith, Prescott R. Andrews and Charles H. Scott, Jr., of Humes, Buck, Smith & Stowell, New York, for the applicants; Lewis N. Evans, Ralph C. Binford and John W. Christensen, for the Public Utilities Division of the Commission.

By the COMMISSION: This matter involves a comprehensive filing by Community Power and Light Company, and certain subsidiaries thereof, pursuant to § 11(e) of the Public Utility Holding Company Act of 1935, 15 USCA § 79k(e) (hereinafter called "the Act"), for approval of a plan designed to effect compliance with the requirements of § 11(b) of the Act. After due notice, hearings were held in connection with

the various phases of the plan presented, and having considered the record, the Commission makes the findings herein set forth.

The Community System

The Community holding company system, as presently constituted, together with the nature of the business conducted by the various subsidiary companies and the location of the operating properties by states is shown in the following chart. In each instance 100 per cent of the common stock of each subsidiary is owned by its respective parent except in the case of General Public Utilities, Inc. In that case, 60.37 per cent of the common stock is owned by Community, the remainder being publicly held.

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Name of Company ¹	Nature of Business	Location of Operating Properties
Community Power and Light Company	Holding company	—
Arkansas Utilities Company	Electric, gas, water, ice	Ark.
The Kansas Utilities Company	Electric, heat, ice	Kans.
Texas-New Mexico Utilities Company		Texas-N. M.
Southwestern Electric Company	Electric, water, ice	—
General Public Utilities, Inc.	Investment company	—
Gulf Public Service Company	Electric, ice holding company	Fla., Texas*
Southwestern Public Service Company	Electric, gas, water, ice, bottling	La., Tex.
Arizona Electric Power Company	Holding company, electric, gas, water, ice	Texas-N. M.
Flagstaff Electric Light Company	Electric	Ariz.
Holbrook Light and Power Company	Electric, steam	Ariz.
Southwestern Ice Company	Electric	Ariz.
	Ice	Ariz.

*Also owns, but does not operate, electric generating facilities in Louisiana and New Mexico.

Community is a registered holding company owning 10 per cent of the voting securities of three operating public utility companies, 100 per cent of the voting securities of an investment company (Southwestern Electric) and 60.37 per cent of the voting power of General, a registered holding company which is also an operating utility company. These subsidiaries will now be discussed dealing first with the three operating utility companies which are not also holding companies.

Direct Operating Subsidiaries of Community, Which Are Not Holding Companies

Arkansas is an operating public utility company furnishing electricity to the public in a service area in east-central Arkansas. Helena, situated within the area so served, is also served with gas, water, and ice, and Marianna, likewise situated within such area, is served with water as well as electricity.

Texas-New Mexico is a public utility operating company engaged principally in the generation, transmission,

¹For convenience, the several companies involved will hereinafter be designated as follows:

Community Power and Light Company—Community.
 Arkansas Utilities Company—Arkansas.
 The Kansas Utilities Company—Kansas.
 Texas-New Mexico Utilities Company—Texas-New Mexico.
 Southwestern Electric Company—Southwestern Electric.
 General Public Utilities, Inc.—General.
 Gulf Public Service Company—Gulf.
 Southwestern Public Service Company—Southwestern.

Arizona Electric Power Company—Arizona.
 Flagstaff Electric Light Company—Flagstaff.
 Holbrook Light and Power Company—Holbrook.
 Southwestern Ice Company—Southwestern Ice.

Royal Palm Ice Company, a Florida corporation (hereinafter called Royal Palm), is also a subsidiary of General. It is not listed in the chart given in the text because presently inactive. However, as a result of the several transactions presently proposed, it will become an active company.

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and distribution of electric energy, in, and south of, the Panhandle district of Texas and in adjacent territory in eastern New Mexico. The electric properties of Texas-New Mexico, so located, are adjacent to and interconnected with the electric properties of Southwestern located in the Texas Panhandle. In addition to these properties, Texas-New Mexico owns electric utility properties in and around Marlin and Mexia in the east-central part of Texas. These latter properties are situated about 300 miles from the Texas-New Mexico properties first mentioned, are not interconnected with such latter properties, nor capable of economical interconnection therewith. In addition to its electric utility business, Texas-New Mexico is engaged to a lesser degree in the water and ice business in portions of its electric service area.

Kansas is a public utility operating company engaged principally in the generation, transmission, and distribution of electric energy in the eastern part of Kansas.

Southwestern Electric, the investment company subsidiary, will be liquidated in connection with the proposed transactions. Over 90 per cent of its assets consist of obligations of Texas-New Mexico.

Subholding Companies and Subsidiaries

General, a direct subsidiary of Community, is a registered holding company. Its only direct active subsidiaries are Southwestern and Gulf. It has an inactive subsidiary, Royal Palm, which will be used for segregation of the Florida ice properties as hereinafter discussed. General is also

an operating public utility company. The physical operations of General consist principally of the generation of electricity from facilities owned by it at Amarillo, Texas (the electricity so generated at Amarillo being sold in its entirety to Southwestern), and the operation of ice properties located in the state of Florida. General also owns, but does not operate, electric generating facilities located in New Mexico and in Louisiana, these properties being operated by system subsidiaries.

Gulf, a direct subsidiary of General and an indirect subsidiary of Community, is an operating public utility company engaged in electric utility operations in Louisiana and in the eastern part of Texas. Gulf also engages, to a lesser extent, in the gas utility, ice, water and bottling businesses in the same general areas.

Southwestern, a direct subsidiary of General and an indirect subsidiary of Community, is a registered holding company and is also an operating public utility company. The operations of Southwestern consist principally of the generation, transmission, and distribution of electric energy in the Panhandle district of Texas and in a small service area in the Southeastern part of New Mexico. This company also carries on, to a lesser extent, gas, ice, and water businesses within the territory served with electricity by it.

Arizona, Flagstaff, and Holbrook, direct subsidiaries of Southwestern and indirect subsidiaries of General and of Community, are small electric utility companies, operating in the eastern part of the state of Arizona. The properties of these three compa-

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nies are not adjacent to, nor interconnected with, the other system properties. The properties of Arizona are interconnected with those of Holbrook but the properties of neither of these two companies are interconnected with the Flagstaff properties.

Southwestern Ice is a small company engaged in the ice business in Holbrook, Arizona.

The necessity for reorganization, in order to comply with the standards of the act, is immediately apparent from the fact that Community is a holding company with respect to a subsidiary (General) which itself has a subsidiary (Southwestern) which is a holding company, in contravention of § 11(b)(2). By reason of the foregoing and the multiplicity and diverse character of the securities making up the present capitalization of the companies in the system, the applicants have recognized and stated the conclusion at the hearings that the present corporate structure is unduly and unnecessarily complicated and, therefore, fails to comply with § 11(b)(2). Similarly, due to the lack of physical interconnection and capability of such interconnection between all the properties of the system, the geographical distribution thereof, and the several types of businesses conducted, the record discloses the concurrence of the applicants in the view that the operations of the present system are not limited to those of a single integrated public utility system and to such other businesses as are reasonably incidental, or economically necessary or appropriate to the operation of such integrated public utility system, as required by § 11(b)(1).

Summary of Plan

Briefly stated the proposed plan provides for (1) the sale of certain properties, (2) the elimination of unnecessary companies, namely, Community, General, Southwestern Electric, and Texas-New Mexico, (3) the combination of certain properties into a single operating company, Southwestern, with the retention only temporarily of certain isolated subsidiary companies, and properties, (4) the segregation of the Florida ice properties of General into Royal Palm, (5) the recapitalization and partial liquidation of one such isolated company, Gulf, as an aid to the future disposition of it, (6) the acquisition from a nonaffiliated system of certain properties capable of physical interconnection, these properties being presently owned by Panhandle Power and Light Company, Cimarron Utilities Company and Guymon Gas Company, all direct subsidiaries of Continental Gas and Electric Corporation, a subsidiary of United Light & Power Company, and (7) the refinancing of the chief operating company, Southwestern, remaining after the proposed transactions.

Progress Already Made toward Standards of Section 11

Community was incorporated in Delaware in 1927 to acquire the assets, consisting primarily of all the common stocks and the majority of the bonds of four operating companies and one so-called investment company, and to assume the liabilities of Community Power and Light Company of Illinois. The operating companies, control of which was so acquired by Community, functioned in widely

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scattered service areas. The common stock of Community was all held by its parent and creator, American Community Power Company, and was pledged, with other assets, to secure the debentures of that company. American Community Power Company also controlled General Public Utilities Company, the predecessor of General, and was itself controlled by American Commonwealths Power Corporation. In 1931 both American Community Power Company and its parent, American Commonwealths Power Corporation, were placed in receivership. Meanwhile the financial position of Community had been seriously impaired by reason of practices and transactions imposed upon it by its parents, including the incurring of bank debt for the purchase of unsecured obligations of General Public Utilities Company. Later General Public Utilities Company was reorganized, the present General resulting, and as a consequence of this reorganization Community became the controlling common stockholder of General.

While the management of Community changed as a result of the collapse of the top holding companies, and of the distribution of the Community common stock which, as had been noted, was pledged to secure the debentures of its immediate parent, this new management had, as one of its first major problems, that of remedying, as far as possible, the precarious situation, both in respect of credit and in respect of public relations, in which the practices dictated by the former controlling interests had placed the company. The action taken in this connection, and the results achieved,

are more fully described in our opinion in *Re Community Power & Light Co.* (1939) 6 SEC 182, 32 PUR (NS) 149.

Thereafter, further action was taken by the management of Community for the financial improvement of the system, such particular action being for a simplification of the corporate structure of Community itself. To this end a voluntary plan of simplification was filed with this Commission, approved by it in the findings and opinion last cited, and consummated pursuant to an order of court.

The management of Community has actively engaged in the exploration and negotiation of further steps not only toward compliance with § 11(b) (2) of the Act, but also toward meeting the integration standards of § 11(b) (1).

Several important steps have been taken. Gothenburg Light and Power Company and Nebraska Light and Power Company, formerly operating subsidiaries of General, doing business in Nebraska, have been sold by General to public authorities in Nebraska. Part of the assets of Arkansas were transferred to Missouri Utilities Company, a former subsidiary of Community, and the remainder have been the subject of negotiations for sale by Community. Missouri, in turn, has been disposed of by Community and is no longer a subsidiary of a registered holding company.³ Negotiations have also been concluded for the sale of Kansas to the Continental Gas & Electric Company, a subsidiary of United Light & Power Company. (This mat-

³ (1941) Holding Company Act Release No. 3041.

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ter is being treated in a separate order and opinion, filed concurrently herewith.) Still another step has been the transfer of the assets of Dakota Power Company, now in process of dissolution, and the South Dakota properties of General to a new company, Black Hills Power and Light Company, whose securities have been sold to underwriters for resale to the public.³ The several sales which have been so completed have resulted in the disposition of net assets of the system in the approximate amount of \$10,000,000 and in the reduction of debt to substantially the same amount.

In addition to the several transactions so completed, negotiations have been in progress from time to time with respect to the disposal of Arizona, Flagstaff, and Southwestern Ice whose properties are not adjacent to nor interconnected with other properties of the system.

These steps were all in compliance with a general plan for compliance with the statute, and were so described in the several filings with this Commission. Thus, the foregoing transactions have been accomplished, with the Commission's approval where necessary, as consonant with the proposed comprehensive plan, and with compliance with § 11(b) of the Act. We come now to a consideration of the substantial phases of the plan with respect to which jurisdiction has been reserved. We will discuss separately each of the remaining proposed transactions.

Merger of Community, General, and Southwestern

It is proposed that Community and General be merged into Southwestern which will exchange⁴ new common stock for the common stock of Community and General now outstanding and will acquire all the assets and assume all the obligations of such merging companies. In connection with the merger, the outstanding no par value preferred stock of General in the hands of the public will be redeemed at \$100 per share, plus accrued dividends.⁵

General will deliver to Southwestern as a capital contribution, for cancellation, the following securities of Southwestern:

First mortgage 4% bonds, due 1971	\$1,116,000
5% unsecured notes, due 1972	1,162,000
Preferred stock (\$50 par value)	
6,239 shares	311,950
	<hr/> \$2,589,950

General will also deliver to Southwestern for cancellation the outstanding common stock of Southwestern, all of which is owned by General and also an open account in the amount of \$50,672. In addition, General will deliver to Southwestern the following securities of Gulf:

First mortgage 4% bonds, due	
1966	\$798,500*
5% note, due 1966	1,500,000
Common stock, \$100 par	3,000 shs.

* As stated later, these bonds are proposed to be surrendered to Gulf in connection with its recapitalization and partial liquidation.

General will also transfer to Southwestern the securities, consisting of a 6 per cent serial purchase money mort-

³ (1941) Holding Company Act Release No. 3096.

⁴ The proposed basis of exchange of common and the fairness thereof will be discussed at a later point in the findings.

⁵ The amount thus necessary to retire such stock is \$781,443, to be obtained from the proposed refinancing of Southwestern as will be described later.

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gage in the amount of \$400,000 and 10,000 shares of common stock, \$10 par value, of Royal Palm Ice Company, a Florida corporation, to which all the Florida properties of General are to be transferred.⁶ The physical assets of General to be transferred to Southwestern consisting principally of electric utility property at Amarillo, Texas, have a net book value of \$1,927,809.⁷

As regards Community's part in the merger, the following assets (as of December 31, 1941) are to be transferred to the surviving corporation: [See table below.]

Southwestern Electric, a wholly owned subsidiary of Community, is to be liquidated.⁸ The bonds, notes, and other claims against Texas-New Mexico presently owned by South-

western Electric are included in the above list of those to be transferred by Community.

Southwestern will assume the obligations of Community and General outstanding in the hands of the public at the date of merger which at present^{8a} are as follows:

<i>Obligations of Community</i>	
First mortgage and collateral trust 5% bonds due 1957	\$7,962,800
Bank loans	640,000
Total	\$8,602,800
<i>Obligations of General</i>	
First mortgage collateral trust 6½% bonds due 1956	\$8,617,700
First mortgage collateral trust 6½% bonds, due 1955	735,000
Equipment purchase contracts ...	88,000
Payment of liquidating value of preferred stock	778,200
Total	\$10,218,900
Total	\$18,821,700

<i>Securities and Indebtedness of Texas-New Mexico:</i>	Number of Share or Principal Amount	Carrying Value
First mortgage 4½% bonds due 1944	\$7,919,900	\$7,919,900
General mortgage 5% bonds due 1955	153,200	153,200
4% promissory note	503,042	503,042
Open accounts	471,651	471,651
Common stock, no par value	16,000 shs.	1,000,000
		\$10,047,793
<i>Securities of Arkansas:</i>		
First mortgage 4% bonds due 1971	\$1,000,000	\$1,000,000
Common stock \$5 par	100,000 shs.	1,033,479
		\$2,033,479
<i>Securities of General (for Cancellation):</i>		
Bonds	\$3,800	\$2,775
Common stock, no par	98,514.5 shs.	2,532,867
		\$2,535,642
<i>Net physical property</i>		\$2,908

⁶ This transaction is treated in more detail *infra*.

⁷ As of December 31, 1941, the gross carrying value of this property was \$2,994,050, while the retirement reserve was \$1,066,241 or 35.61 per cent of the gross carrying value of such property.

⁸ As against total assets of \$902,784 on December 31, 1941, over 90 per cent of which consisted of bonds, notes, and other claims against Texas-New Mexico, Southwestern

Electric owed \$924,857 to Community on notes and open accounts and had miscellaneous liabilities of \$99, and a capital stock liability of \$1,000. Thus, Southwestern Electric had an earned surplus deficit, as of that date, of \$23,172.

^{8a} After giving effect to the sale of Kansas, treated in a separate opinion as hereinafter noted, and the proposed application of the proceeds of such sale.

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In addition, Southwestern will acquire current and miscellaneous assets of Community and General and will assume current and miscellaneous liabilities. The net excess of such assets over such liabilities amounted to approximately \$500,00 as of December 31, 1941.^{8a}

The new assets, plus its own senior obligations, to be acquired by Southwestern as a result of the merger had, as of December 31, 1941, an adjusted

net book value (the investments having been adjusted to reflect underlying book values after certain adjustments to the surplus accounts of Texas-New Mexico and Gulf hereinafter discussed) of \$23,741,039. This may be compared with total obligations assumed of \$18,821,700.

The following are corporate balance sheets of Southwestern as at December 31, 1941, per books and after giving effect to the merger:

	Per Books	Increase or (Decrease)	As Merged*
Property	\$8,276,508**	\$17,785,254	\$26,061,762
Investments	461,154	6,832,612	7,293,766
Special funds	100	481,061	481,161
Current assets	379,787	1,225,207	1,604,994
Other assets	600	8,243	8,843
Deferred charges	105,313	12,708	118,021
Total	\$9,223,462	\$26,345,085	\$35,568,547
Long-term debt:			
Bonds	\$4,537,000	\$16,499,500	\$21,036,500
Notes	1,162,000	(434,000)	728,000
Other		43,333	43,333
Total	\$5,699,000	\$16,108,833	\$21,807,833
Current liabilities	535,627	947,013	1,482,640
Deferred credits	69,381	43,993	113,374
Reserve for investments		200,000	200,000
Retirement reserve	862,757	2,595,997	3,458,754
Contribution for construction	107,891	12,960	120,851
Preferred stock	311,950	1,516,950	1,828,900
Common stock and surplus	1,636,856**	4,919,339	6,556,195
Total	\$9,223,462	\$26,345,085	\$35,568,547

* After giving effect to liquidation of Texas-New Mexico and to property transfers between Gulf and Southwestern and certain other adjustments on books of Gulf, all of which are more fully discussed hereinafter.

** After giving effect to reversal of write-up in the amount of \$553,994.

^{8a} See p. 164.

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Liquidation of Texas-New Mexico

Community owns all of the outstanding common stock of Texas-New Mexico and substantially all of its debt securities. However, bonds in the principal amount of \$300,000 and all preferred stocks (aggregate par or stated value of \$1,042,100) are in the hands of the public.

Following is a condensed balance sheet of Texas-New Mexico, per books, as of December 31, 1941:

<i>Assets</i>	
Property	\$13,646,705*
Miscellaneous investments	505
Special funds	19,881
Current and accrued assets ...	760,237
Other assets	7,389
Deferred charges	4,542
	<hr/>
	\$14,439,259
<i>Liabilities</i>	
<i>Capital stock:</i>	
First preferred, 7%, \$100 par value	\$394,200
Second preferred, \$4, no par value	656,500**
Common, no par	1,000,000
<i>Long-term debt:</i>	
Bonds, 5%, due 11/1/55	8,373,100
Purchase contract	43,333
Current and accrued liabilities	653,688
Payables to affiliates	974,693
Deferred credits	43,992
Retirement reserve	1,109,790***
Contributions in aid of construction	4,874
<i>Surplus:</i>	
Earned	989,181
Capital	195,908
	<hr/>
	\$14,439,259

* The record indicates that the property accounts of Texas-New Mexico include a write-up of \$105,110 which amount is proposed to be eliminated in connection with the proposed transactions.

** Includes 86 shares reserved for holders of preferred stock of American Commonwealths Power Corporation pursuant to the plan for the readjustment of the capital structure of Texas Utilities Company, dated May 11, 1934.

*** Prior to liquidation, Texas-New Mexico proposes to increase this retirement reserve balance to 12½ per cent of gross property by a charge of \$544,955 to earned surplus.

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Preliminary to the proposed liquidation of Texas-New Mexico, Southwestern will make a cash contribution to Texas-New Mexico equal to the principal amount or par or stated value of the latter's publicly held securities, which contribution (\$1,342,100) will be applied by Texas-New Mexico to redeem or to pay off such securities in liquidation. The following tabulation shows the amount required, as of December 31, 1941, for the redemption of the publicly held securities of Texas-New Mexico:

<i>Redemption:</i>	
5% general mortgage bonds, Series A, at 103%½ plus accrued interest	\$314,250
7% preferred stock plus accrued dividends	396,500
\$4 second preferred stock plus accrued dividends	665,177
	<hr/>
	\$1,375,927
<i>Cash to be advanced by Southwestern</i>	
	\$1,342,100
<i>Cash to be furnished by Texas-New Mexico</i>	
	33,827
	<hr/>
	\$1,375,927

Upon the acquisition of its securities now in the hands of the public, Texas-New Mexico will cancel such securities and transfer in liquidation to Southwestern all of its assets. At the same time Southwestern will assume all the liabilities of Texas-New Mexico existing at the date of the liquidation.

In connection with the foregoing transactions, it should be noted that the properties of the Marlin-Mexia division of Texas-New Mexico, to be acquired by Southwestern through the Texas-New Mexico liquidation, are not physically interconnected nor economically capable of such interconnection with the properties of the prin-

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principal Southwestern properties, unlike the major portion of the Texas-New Mexico properties which are connected. The applicants recognize this fact and have testified to their willingness to dispose of such properties if ordered by the Commission.

Recapitalization and Partial Liquidation of Gulf

Another step in the proposed plan of reorganization is the proposal that Southwestern purchase a 5 per cent note, due 1966, in the principal amount of \$1,300,000 from Gulf, a subsidiary of General.⁹ The proceeds, together with additional cash to the extent necessary, will be used by Gulf to purchase and retire its 3½ per cent first mortgage serial bonds in the principal amount of \$1,305,000 which are Gulf's only publicly held securities. Southwestern will then surrender, for cancellation, to Gulf the \$798,500 principal amount of the latter company's 4 per cent first mortgage serial bonds acquired from General in the above mentioned merger. Gulf, in turn, will transfer to Southwestern all of its assets located in eastern Texas and Southwestern will assume all the liabilities applicable to such properties. Southwestern also proposes to transfer to Gulf certain noncontiguous property, consisting of electric generating equipment located in Louisiana

and having a net carrying value of \$213,621.¹⁰ Upon completion of the foregoing transactions, Southwestern will own all the outstanding securities of Gulf consisting of \$2,800,000 principal amount of 5 per cent notes, due October 1, 1966, and 3,000 shares of common stock, \$100 par value. These securities, as will be noted later, are to be pledged under the lien of the indenture securing the new bonds proposed to be issued by Southwestern in connection with its plan of refinancing. The following are actual and pro forma balance sheets (as of December 31, 1941) of Gulf giving effect to the proposed recapitalization and partial liquidation: [Table on page 168.]

The property and plant accounts of Gulf are stated on the basis of an independent appraisal¹¹ as of December 31, 1925, for properties acquired on that date plus subsequent additions at cost, less retirements at amounts stated in the property accounts for property and plant retired. However, the record indicates that these accounts do not include any known write-ups or other inflationary items. The property to be transferred by Gulf to Southwestern will be recorded on the books of the latter company at the same amount at which it is recorded on the books of Gulf. The property to be transferred by Southwestern to Gulf will be recorded by the latter

⁹ It will be recalled that Southwestern through the merger is also acquiring another note of Gulf in the principal amount of \$1,500,000, as well as other securities of Gulf, from General.

¹⁰ As of December 31, 1941, gross carrying value was \$221,126, while retirement reserve applicable thereto was \$7,505.

¹¹ On January 1, 1926, the properties which Gulf acquired were recorded on its books on the basis of an appraisal made by Day & Zimmerman, Inc. The amount at which the

assets were recorded exceeded by \$285,214.67 the principal amount and par or stated value of the securities issued therefor, and as a result thereof capital surplus was credited with \$285,214.67. In 1940 capital surplus was charged with \$285,214.67 and a like amount was credited to reserve for retirements and renewals. (See File No. 70-70-1.) The company advises that records of the predecessors, covering the period prior to January 1, 1926, are not available to it.

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<i>Assets</i>	Per Books	Transfer of Property	Refinancing	Pro Forma
Plant and property	\$7,913,416	(\$1,590,655)	\$	\$6,322,761
Other assets	779	(1)		778
Current assets	520,049	(93,047)	(31,745)	395,257
Deferred charges	88,666	.....	( 88,656)	10
Total assets	\$8,522,910	(\$1,683,703)	(\$120,401)	\$6,718,806
<i>Liabilities</i>				
Long-term debt:				
First mortgage serial bonds 3½% due annually to 1966	\$1,290,000	\$	(\$1,290,000)	\$.....
First mortgage serial bonds 4%, due 10/1/66	798,500	.....	( 798,500)	.....
5% unsecured notes, due 10/1/66 ..	1,500,000	.....	1,300,000	2,800,000
Total long-term debt	\$3,588,500	\$	(\$788,500)	\$2,800,000
Current liabilities	458,589	(56,051)	(35,220)	367,318
Contribution in aid of construction ..	29,948	(8,086)	.....	21,862
Reserves:				
Retirements	659,702	(218,965)	452,260	892,997
Other (depletion and amortization of water plant)	53,539	.....	.....	53,539
Common stock, par \$100	300,000	.....	.....	300,000
Surplus:				
Capital	3,327,134	(1,400,601)	356,557	2,283,090
Earned	105,498	.....	( 105,498)**	.....
Total liabilities	\$8,522,910	(\$1,683,703)	(\$ 120,401)	\$6,718,806
* Contribution of bonds by Southwestern				\$798,500
Deficit transferred from earned surplus (as below)				441,943
Net increase in capital surplus				\$356,557
**Earned surplus per books				\$105,498
Deduct proposed changes:				
Increase in retirement reserve				\$452,260
Unamortized debt discount and expense				88,656
Premium on bonds to be retired				6,525
				\$547,441
Deficit to be transferred to capital surplus (as above)				\$441,943

company at the same value at which it is recorded on the books of Southwestern.

In connection with its recapitalization, Gulf proposes to increase its reserve for retirements and renewals to an amount equal to 15 per cent of gross property of the Louisiana division and 12½ per cent of the Texas division. Such additional reserve will be created out of earned surplus, thus necessitating a charge of \$452,260.63 to the latter account. The deficit of \$441,943 in the earned surplus ac-

count will be eliminated by a charge to capital surplus.

Capitalization of Royal Palm Ice Company

As hereinbefore mentioned, General proposes to convey and transfer to Royal Palm Ice Company, a Florida corporation organized in 1922 and wholly owned by General, but which at present has no assets or income, the fixed properties (consisting solely of ice properties) and current and miscellaneous assets comprised in General's

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Florida ice division. The consideration therefor, and for the surrender for cancellation of the presently outstanding stock of Royal Palm, will be the issuance and delivery by Royal Palm to General of a purchase money bond of Royal Palm in the amount of \$400,000 and common stock of that company in the par amount of \$100,000. A condensed pro forma balance sheet of Royal Palm as of December 31, 1941, is as follows:

<i>Assets</i>	
Property and plant—tangible	\$958,859
Less retirement reserve	346,213
Net property and plant	\$612,646
Current assets (including cash, \$5,278)	45,004
Special deposits	58
Total assets	<u>\$657,708</u>
<i>Liabilities</i>	
Long term debt:	
6% purchase money mortgage due serially to 1952	\$400,000
Current liabilities	22,333
Capital stock and surplus:	
Capital stock, \$10 par value—	
10,000 shares	100,000
Capital surplus	135,375
Total capital stock and surplus ...	<u>\$235,375</u>
Total liabilities	<u>\$657,708</u>

It is to be noted that the property account of Royal Palm will be stated on the basis of an appraisal as of August 1, 1934 (which was less than cost), plus net additions since that date at cost. Adjustments to effect this result are to be made upon the books of General prior to the transfer of the property involved to Royal Palm.

It is represented by the applicants that the proposed capital structure of Royal Palm was deemed desirable, as contrasted with an all common stock structure because (1) such structure

will facilitate the sale of the company by Southwestern, and (2) will result in a saving in Federal income taxes. Initially, it may be noted that this capital structure consists of 62.95 per cent debt and 37.05 per cent capital stock and surplus. As payments are made upon the mortgage debt in equal instalments each year the percentage of debt in the capitalization will, of course, be gradually reduced. A pro forma income statement of Royal Palm for the year ended December 31, 1941, allowing for Federal income taxes estimated at 1941 rates, reflects a gross income of \$50,577, being 2.10 times the \$24,000 required for the payment of interest upon the total amount of debt presently proposed to be issued to its parent, and leaving after such payment, \$26,577 of net income available for capital stock; i.e., \$2.66 per share.

The pro forma income statement reflects noncash items, including depreciation in the amount of \$49,687, in an amount more than sufficient to permit the payment of the equal annual serial instalments (\$40,000) of mortgage debt over the 10-year period, from operating revenues.

Upon completion of the merger, Southwestern, the surviving corporation will carry the securities of Royal Palm upon its books at the underlying book value thereof, \$635,375.

Acquisition of Panhandle Companies

Community has entered into an agreement with Continental Gas and Electric Corporation (a subsidiary of United Light & Power Company, a nonaffiliated company) providing for the purchase by Community of all the outstanding shares of capital stock,

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notes, and open accounts of Panhandle Power and Light Company, Cimarron Utilities Company, and Guymon Gas Company, herein referred to collectively as the "Panhandle Companies," and sometimes individually as "Panhandle," "Cimarron," and "Guymon." This contract will be transferred by Community to Southwestern in the merger and it is expected that Southwestern will accordingly acquire the shares of capital stocks, notes, and open accounts of the Panhandle Companies, the consideration being approximately \$7,366,762 in cash as of December 31, 1941.

Immediately after the acquisition of the securities, etc., by Southwestern the Panhandle Companies will be liquidated and Southwestern will acquire all their assets and assume the remaining liabilities.

Panhandle Power and Light Company operates an electric system serving an area in the extreme northern part of the Texas Panhandle, north of and adjacent to the area served by Southwestern. Its principal business is the sale of power to the oil and gas industry in the territory, about 90 per

cent of the total sales of the company being made to such customers, the most important of which is The Phillips Petroleum Company. The power requirements of these industries is expected to increase substantially in the immediate future. The company is also engaged, to a lesser extent, in the gas and water business in the same locality.

Cimarron Utilities Company owns and operates an electric system located in Oklahoma immediately adjacent to and interconnected with the electric properties of Panhandle. This company also produces, transmits, and distributes natural gas and water in certain parts of the territory in which it serves electricity.

Guymon Gas Company operates a natural gas property in the small town of Guymon, Oklahoma. The territory served by Guymon Gas Company is adjacent to the present properties of Cimarron.

Following is an actual and pro forma balance sheet, as of December 31, 1941, showing the effect of the purchase of the Panhandle properties:

Assets	Southwestern (After Merger)	Purchase of Panhandle Properties *	Southwestern (Before Refinancing)
Property	\$26,061,762	\$8,611,915	\$34,673,677
Excess cost of net assets		442,791	442,791
Investments	7,293,766		7,293,766
Special funds	481,161		481,161
Current assets	1,604,994	608,697	2,213,691
Other assets	8,843	5,032	13,875
Deferred charges	118,021	13,780	131,801
	<u>\$35,568,547</u>	<u>\$9,682,215</u>	<u>\$45,250,762</u>

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Liabilities			
Long-term debt:			
Bonds	\$21,036,500	\$.....	\$21,036,500
Notes	728,000	728,000
Other	43,333	.....	43,333
Current liabilities	1,482,640	297,579	1,780,219
Deferred credits	113,374	6,046	119,420
Reserve for investments	200,000	.....	200,000
Contributions for construction	120,851	17,146	137,997
Retirement reserve	3,458,754	1,994,682	5,453,436
Capital stock:			
Preferred	1,828,900	.....	1,828,900
Common	3,855,629	.....	3,855,629
Capital surplus	2,700,566	.....	2,700,566
Purchase contract payable .....	.....	7,366,762	7,366,762
	<u>\$35,568,547</u>	<u>\$9,682,215</u>	<u>\$45,250,762</u>

*Although the securities of the Panhandle companies are to be acquired, the companies are to be immediately liquidated and their assets and liabilities taken up by Southwestern.

The record states that the property of the Panhandle companies is stated at cost based on cash paid or par or stated values of securities issued for properties acquired or constructed. An official of the companies testified that the properties were of comparatively recent construction, and that the carrying values represent actual cost with the exception of intersystem profits included in the accounts in the amount of approximately \$340,000.

The combined property of these three companies at December 31, 1941, was as follows:

Tangible property	\$8,388,921
Intangibles	222,994
Total property	\$8,611,915
Retirement reserve	\$1,994,682
Net property	\$6,617,233

If these figures are adjusted to eliminate the \$340,000 of intercompany profit mentioned above, the net property becomes \$6,277,233.

The consolidated gross income of the Panhandle Companies amounted to \$595,489 for the year ended December 31, 1941, as indicated by the following pro forma statement of gross income:

Operating Revenues:	
Electric	\$1,411,733
Gas	259,063
Water	119,318
Ice	3,789
	<u>\$1,793,903</u>
Operating Expenses:	
Operation	\$628,727
Maintenance	109,903
Provision for retirements	246,891
Taxes, including Federal income	213,471
	<u>\$1,198,992</u>
Operating income	\$594,911
Nonoperating income	578
	<u>\$595,489*</u>

* After elimination of service charges in the amount of \$4,980, paid to United Light and Power Service Company.

The combined gross income of these companies for the calendar years 1939 to 1941, inclusive, was as follows:

	1939	1940	1941
Panhandle Power and Light Company	\$425,530	\$496,623	\$530,818
Cimarron Utilities Company	34,063	40,572	58,538
Guymon Gas Company	(1,257)	2,309	2,297
Combined	<u>\$458,336</u>	<u>\$539,504</u>	<u>\$591,653</u>

Southwestern proposes to pay a cash price of \$7,250,000 (adjusted with respect to earnings subsequent to January 1, 1941, taxes and other items)

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for the Panhandle properties. Based on financial statements as of December 31, 1941, the total purchase price may be computed as follows:

Basic price	\$7,250,000
Capital contributions in 1941 by parent	100,000
Excess of earnings over dividends paid	16,762
Total	\$7,366,762

For the total purchase price of \$7,366,762 Southwestern will receive all of the outstanding securities of the three Panhandle companies representing net assets, as at December 31, 1941, as follows:

Net property	\$6,617,233
Other net assets	306,738
Total	\$6,923,971

The total purchase price of \$7,366,762 is \$442,791 in excess of the total net assets of the Panhandle Companies, as reflected on the books of those companies, as of December 31, 1941. Southwestern reflects this excess in its pro forma balance sheet as "Excess Cost of Net Assets Acquired Over Value Recorded in Accounts of Predecessor."¹²

If the net assets are adjusted to remove the \$340,000 of intercompany profits the consideration to be paid by Southwestern will be \$782,791 in excess of the net assets purchased.

The consideration of \$7,366,762 to be paid by Southwestern is 12.37 times the pro forma consolidated gross income, for the year ended December 31, 1941, of the Panhandle properties.

	Southwestern (Before Refinancing)	Refinancing Transactions	Southwestern (After All Pro- posed Transactions)
Assets			
Property	\$34,673,677	.....	\$34,673,677
Excess cost of net assets acquired	442,791	.....	442,791
Investments	7,293,766	\$1,300,000	8,593,766
Special funds	481,161	18,839	500,000
Current assets	2,213,691	(216,992)	1,996,699
Other assets	13,875	.....	13,875
Deferred charges	131,801	265,037	396,838
	\$45,250,762	\$1,366,884	\$46,617,646
Liabilities			
Long-term debt	\$21,807,833	\$2,235,500	\$24,043,333
Current liabilities	1,780,219	(310,211)	1,470,008
Deferred credits	119,420	1,137,279	1,256,699
Reserve for investments	200,000	.....	200,000
Retirement reserve	5,453,436	.....	5,453,436
Contributions for construction	137,997	.....	137,997
Capital stock:			
Preferred	1,828,900	6,671,100	8,500,000
Common	3,855,629	(3,395,809)	459,820
Capital surplus	2,700,566	2,395,787	5,096,353*
Purchase contract payable	7,366,762	(7,366,762)	.....
	\$45,250,762	\$1,366,884	\$46,617,646

* Surplus resulting after all proposed adjustments contemplated by the plan, including charges aggregating \$994,773 representing premiums paid on redemption of bonds and elimination of unamortized debt discount and expense applicable to such bonds.

¹² Southwestern has agreed to write off such excess account by regular charges to the income account over a 5-year period. It may be noted that upon completion of the proposed transactions Southwestern will be subject, in respect of its accounting practices, and otherwise, to the jurisdiction of the Federal Power Commission.

posed transactions Southwestern will be subject, in respect of its accounting practices, and otherwise, to the jurisdiction of the Federal Power Commission.

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Refinancing of Southwestern.

In order to consummate the several proposed transactions constituting the plan now under consideration, Southwestern, the surviving and reorganized corporation, proposes to sell to underwriters (a) \$18,500,000 principal amount of first mortgage and collateral trust bonds due in 1967 or 1972, and bearing interest at from $3\frac{1}{2}$ per cent to 4 per cent, (b) \$5,500,000 principal amount of serial notes, due in equal annual amounts from November 1, 1943 to November 1, 1953, inclusive of both dates, and bearing interest at an average rate of from $2\frac{1}{2}$ per cent to $3\frac{1}{2}$ per cent, and (c) 85,000 shares of 6 per cent or $6\frac{1}{2}$ per cent cumulative preferred stock, with a par value of \$100 per share.¹³

Hereinafter in these findings calculations and tabulations relative to the foregoing securities will be based upon interest rates of $3\frac{3}{4}$ per cent for the

bonds and $2\frac{3}{4}$ per cent for the notes and a dividend rate of 6 per cent for the preferred stock.

Application of proceeds.

The proceeds to be obtained from the proposed sale of securities, in the amount of \$33,702,500¹⁴ are to be employed as follows:

Purchase of outstanding securities, etc.:	
Gulf—5% note	\$1,300,000
Texas-New Mexico	
5% bonds @ $103\frac{1}{4}$ %	314,250
Retirement of preferred stocks at par or stated value plus accrued dividends	1,061,677
General	
Retirement of preferred at redemption price plus accrued dividends	781,443
Series "A" bonds at $103\frac{1}{4}$ %	8,897,775
Series "C" bonds at 103% ..	757,050
Contracts payable	88,000
Accrued interest	204,402
Community	
5% bonds at 105%	8,360,940
Notes payable	640,000
Accrued interest	200,749
Southwestern	
$3\frac{3}{4}$ % bonds at 107%	3,660,470

¹³ While the present proposal contemplates the issuance and sale of bonds, notes, and preferred stock as set forth in the text, yet the shareholders of the companies to be merged into Southwestern are being requested by the applicants to authorize the management to vary the amounts and character of such securities, as follows:

"(i) The principal amount of any class of funded debt (or the aggregate principal amount of all funded debt) to be issued by Southwestern under the plan may be increased, and the principal amount of any class of funded debt or the aggregate par value of the preferred stock to be issued may be decreased, and the character and designation of the securities comprising the funded debt may be changed (including, among other things, a change in the maturities of the serial notes so that they may have maturities up to twenty years), provided that the total principal amount of all funded debt and the total par value of the preferred stock, if any, to be so issued shall not in the aggregate exceed \$32,500,000, except as provided in (ii) below.

"(ii) The principal amount of new bonds to be issued by Southwestern under the plan may be increased to the extent of not exceeding \$1,500,000 provided that the proceeds

thereof shall be deposited with the trustee under the bond indenture, subject to withdrawal against property additions as to be provided therein. . . .

"(iii) In lieu of issuing any portion of the above mentioned funded debt and/or preferred stock, and/or to increase working capital, Southwestern may sell for cash additional shares of its authorized common stock; any common stock so sold shall first be offered to holders of the common stock of Community and General."

Of course, the issuance and sale of securities other than as presently proposed (as in the case of those presently proposed) could not be effected without prior approval by this Commission, and, it is represented that authority for such variation is presently sought from the stockholders by the management because of the impracticability of a second solicitation of assents in the event that, prior to the actual issuance and sale of such securities, market or other conditions should require some change in the amount or character of the securities to be offered.

¹⁴ Consisting of face or par value of securities plus an estimated \$1,202,500 premium on the bonds.

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Purchase of securities of Panhandle Companies	7,366,762
Deposit in escrow for construction	500,000
Estimated expenses	267,136
Total	\$34,400,654*

* Excess of proposed disbursements over proceeds from sale of securities will be made up by:
 Sinking-fund cash to be returned ... \$481,162
 Cash supplied by Southwestern 216,992

Excess of disbursements over proceeds \$698,154

Actual and pro forma balance sheet.

Following is a condensed pro forma balance sheet of Southwestern, as of December 31, 1941, after consummation of all the proposed transactions except refinancing and after such refinancing: [Table on page 172.]

Property accounts.

The properties of Southwestern,

Texas-New Mexico, Gulf and General to be owned directly by Southwestern at the conclusion of the merger are at present stated on the basis of appraisal values at an aggregate of \$27,283,038, while the properties of the Panhandle Companies and Community are stated at an aggregate figure of \$8,616,429.¹⁸ The applicants contend that all write-ups resulting from appraisals will be eliminated in connection with the proposed transactions. Following is a summary, as of December 31, 1941, of the property accounts of the companies to be merged into Southwestern, and of those companies the properties of which will be otherwise acquired by Southwestern, after the elimination of write-ups in the aggregate amount of \$1,004,665 and other proposed adjustments:

	Gross * Property	Retirement Amount	Reserve % of Gross	Net Property
Per books:				
Southwestern (present)	\$8,830,502	\$862,757	9.77	\$7,967,745
Texas-New Mexico	13,646,706	1,109,790	8.13	12,536,916
Panhandle properties	8,611,915	1,994,681	23.16	6,617,234
Gulf properties	1,811,781	226,470	12.50	1,585,311
G. P. U. (excluding ice properties)	2,994,049	699,237	23.35	2,294,812
Community	4,514	1,606	35.58	2,908
Total per books	\$35,899,467	\$4,894,541	13.63	\$31,004,926
Proposed adjustments:				
Elimination of write-ups—				
Southwestern	(\$553,994)	.....	....	(\$553,994)
Texas-New Mexico	(105,110)	.....	....	( 105,110)
G. P. U.	(345,561)	21,444	....	( 367,005)
* Tangible Property		Intangibles		Total
Electric	\$28,848,971	\$1,887,958		\$30,736,929
Gas	1,447,031	96,775		1,543,806
Water	813,478	14,946		828,424
Ice	1,401,559	91,193		1,492,752
Work in progress	324,852	.....		324,852
Not classified	114,503	281,680		396,183
Miscellaneous	9,835	.....		9,835
Total	\$32,960,229	\$2,372,552		\$35,332,781
Less elimination of write-ups		659,105		659,105
Total adjusted	\$32,960,229	\$1,713,447		\$34,673,676

¹⁸ Community's property is stated on the basis of cost (\$4,514) while the properties of the Panhandle Companies are carried on the

books of such companies at cost to them, which is \$442,791 less than the proposed purchase price.

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Increase to 124% of gross property—				
Texas-New Mexico	544,955	(544,955)	
Transfer of G. P. U. generating equipment to Gulf	(221,126)	(7,505)	(213,621)
	<u>\$34,673,676*</u>	<u>\$5,453,435</u>	<u>15.73</u>	<u>\$29,220,241</u>
Excess cost of Panhandle properties over carrying value	<u>\$442,791</u>	.....	....	<u>\$442,791</u>
Total	<u>\$35,116,467</u>	<u>\$5,453,435</u>	<u>15.53</u>	<u>\$29,663,032</u>

In regard to the proposed eliminations of appraisal write-ups, Southwestern has concluded that its appraisal write-ups amount to \$553,994. We indicated in an earlier opinion that on the basis of the records then before us we felt justified in concluding that write-ups amounting to approximately \$956,936 remained in Southwestern's property account.¹⁶ The present record does not alter our con-

clusion in this regard. mission has made no report in regard to the Panhandle Companies. However, the accounts of the Panhandle Companies, asserted to be stated at cost, include an amount representing a construction profit paid to an affiliated company. There follows a summary of the possible inflationary items, referred to above, which the companies do not propose at this time to eliminate from the property account:

Write-ups of Southwestern				
Total			\$956,936	
To be written off			<u>553,994</u>	
				\$402,942
Apparent intersystem profits on books of Panhandle Companies				340,000
Electric plant adjustment account of Texas-New Mexico per Federal Power Commission's original cost study				447,107
Intercompany profits included in ice plant of Texas-New Mexico per Federal Power Commission				<u>35,844</u>
				<u>\$1,225,893</u>

clusion in this regard.

In conformity with orders of the Federal Power Commission, original cost studies have been made of the plant and property accounts of Texas-New Mexico and the properties of the Panhandle Companies. In consequence of this study, the Federal Power Commission has concluded that certain items are overstated on the books of Texas-New Mexico. That Com-

In view of the fact that Southwestern will hereafter be required to adopt the Uniform System of Accounts prescribed by the Federal Power Commission, we will not, at this time, attempt to determine the actual character or proper disposition of these items.

The following tabulation indicates the ratios of the senior securities proposed to be issued by Southwestern to properties and investments on various bases as indicated:

¹⁶ Re General Pub. Utilities (1941) Holding Company Act Release No. 2783.

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Ratio To		Ratio Of	
		Total Long-Term Debt	Total Long-Term Debt and Preferred Stock
	Bonds		
Gross property: *			
Per books	45.12%	....	....
Excluding possible inflationary items	46.51	....	....
Excluding intangibles	47.63	....	....
Net property: *			
Per books	52.70	....	....
Excluding possible inflationary items	54.61	....	....
Excluding intangibles	56.15	....	....
Gross property and investments: **			
Per books	42.04	54.63%	73.94%
Excluding possible inflationary items	43.24	56.20	76.06
Excluding intangibles	44.20	57.45	77.75
Net property and investments: **			
Per books	47.98	62.36	84.40
Excluding possible inflationary items	49.29	64.06	86.70
Excluding intangibles	50.82	66.05	89.40

* Includes investment (at underlying book value) in Gulf and \$500,000 to be deposited in a special construction fund in connection with the proposed refinancing.

** Includes investments in subsidiaries of Southwestern at net values recorded on the books thereof, and \$500,000 to be deposited in a special construction fund in connection with the proposed refinancing.

Investments of Southwestern are proposed to be carried at underlying book value with the exception of investments in the Arizona companies, which investments are to be carried at cost, which is \$292,854 less than the underlying book value thereof.¹⁷ Southwestern will establish a reserve for investment in the amount of \$200,000. Thus, the net carrying val-

ue investments will be \$492,854 less than the underlying book value.

Capitalization.

The following schedule shows the capitalization, including surplus, of the Community system on a consolidated basis and the Panhandle Companies on a consolidated basis (after giving effect to purchase of Panhandle properties and proposed refinancing) as of December 31, 1941:

¹⁷ The properties of Arizona, Flagstaff, Holbrook, and Royal Palm Ice will be stated at amounts determined by appraisals of independent engineers; subsequent additions to these properties have been recorded at cost and retirements at amounts stated for the properties retired. The electric property of Arkansas is stated at original cost (cost to the persons first devoting the property to public service) as determined by the company

plus \$162,292, which represents an excess of carrying value over original cost as determined by the company. However, the Federal Power Commission has not yet completed its study, so the final effect of its requirements cannot now be determined. The basis for recording Gulf's properties has heretofore been discussed. The properties of Southwestern Ice (\$15,947 gross) are carried on the books of that company on the basis of cost to it.

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	Community * (Consolidated)		Panhandle Companies (Consolidated)		Southwestern (Consolidated) Pro Forma	
	Amount	%	Amount	%	Amount	%
Long-term debt:						
Bonds	\$22,341,500	69.72	.....	.....	\$18,500,000	48.18
Notes	640,000	2.00	\$5,755,685	87.76	5,500,000	14.33
Other	131,333	.41	405,500	6.18	43,333	.11
Total	\$23,112,833	72.13	\$6,161,185**	93.94	\$24,043,333	62.62
Preferred stock	\$1,828,900	5.71	.....	.....	\$8,500,000	22.14
Common stock and surplus:						
Common stock	\$3,855,629	12.03	\$342,400	5.22	\$459,820	1.20
Surplus	3,247,118	10.13	55,169	.84	5,389,205	14.04
Total	\$7,102,747	22.16	\$397,569	6.06	\$5,849,025	15.24
Total	\$32,044,480	100.00	\$6,558,754	100.00	\$38,392,358	100.00

* Including General and its subsidiaries.

** Due to affiliated companies.

It is to be noted from the above tabulation that the ratio of long-term debt to total capitalization for Southwestern, on a pro forma consolidated basis, will be 62.30 per cent as contrasted to a ratio of 72.13 per cent for the present Community system.

Working capital.

The pro forma balance sheet of Southwestern as of December 31,

1941, following consummation of all transactions reflects current assets of \$1,996,699 as compared with current liabilities of \$1,470,008, leaving a net working capital balance of \$526,691.

Earnings.

The following are pro forma corporate and consolidated income statements of Southwestern for the year ended December 31, 1941:

	Corporate	Consolidated
Operating revenues:		
Electric	\$6,372,557	\$7,874,631
Gas	442,359	594,716
Ice	196,183	953,568
Water	204,803	442,531
Steam heat .....	.....	26,927
Bottling .....	.....	130,726
Total	\$7,215,902	\$10,023,099
Operating revenue deductions:		
Gas and power purchased	\$286,050	\$463,169
Other operating expenses	2,375,666	3,545,120
Maintenance	325,584	447,347
Provision for retirements	767,427	1,061,619
Taxes*	1,417,905	1,891,413
Amortization of excess cost of net assets	88,558	88,558
	\$5,261,190	\$7,497,226
Operating income	\$1,954,712	\$2,525,873
Other income	485,311	41,412
Gross income	\$2,440,023	\$2,567,285

* Federal income taxes computed on the basis of 1941 rates.

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Income deductions:

Interest on long-term debt	\$858,750	\$858,750
Interest—other	36,015	36,015
Amortization of premium on funded debt	(40,083)	(40,083)
Amortization of estimated expenses of plan of integration	15,200	15,200
Miscellaneous	7,718	23,695
Total	\$877,600	\$893,577
Net income	\$1,562,423	\$1,673,708
Preferred dividend requirements	510,000	510,000
Net income applicable to common stock	\$1,052,423	\$1,163,708

The foregoing corporate income account reflects an aggregate expenditure for maintenance and provision for retirements in the amount of \$1,093,011, which amount is equivalent to 15.86 per cent of gross operating revenues, less electricity and gas purchased.¹⁸

Coverage of fixed charges.

On the basis of the above pro forma statements, it appears that Southwestern's earnings will provide coverages as follows:

<i>Time Earned</i>	<i>Corporate</i>	<i>Consolidated</i>
Total interest	2.73	2.87
Fixed charges	2.78	2.87
Fixed charges and preferred dividends	1.76	1.83
Earnings per share of common stock..	\$2.29	\$2.53

Possibility of improvement of capitalization and debt coverage ratios.

[1] It is to be borne in mind that the particular transactions for which the approval of this Commission is presently sought will not, when consummated, mark the completion of the program of the subject system for bringing the system into conformity with the statutory standards of § 11

¹⁸ It is understood that the indenture which will secure the new bonds will provide in substance that annual provisions for depreciation plus expenditure for maintenance shall not be less than 15 per cent of gross operating revenues, less electricity, gas, and water (except for irrigation purposes) purchased.

and with accepted principles of sound financing. Thus, the completion of the several transactions for which approval is presently sought will result in a partial liquidation of Gulf, effected through the transfer of its properties in eastern Texas to Southwestern, and the recapitalization of Gulf. These features of the plan are designed to facilitate the disposition of the eastern Texas properties presently owned by Gulf (as well as those presently owned by Texas-New Mexico and to be acquired by Southwestern as a result of liquidation of Texas-New Mexico) and of Gulf itself, the remaining properties of which will lie wholly within the state of Louisiana. The Arizona companies, under the plan, are left as separate corporate entities, the intention of the system management being to dispose of the investments in these companies as soon as practicable. The purpose of the segregation of the ice properties presently owned by General into Royal Palm is likewise for the purpose of facilitating the disposition of these properties. Our order to be entered herein will specifically require that Southwestern dispose of Gulf, Arkansas, the Arizona Companies, and Royal Palm and the physical properties in eastern Texas as being acquired by it from Texas-

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New Mexico and from Gulf within one year from the date of such order, unless such time shall be extended by further order of this Commission.

Obviously, the refinancing of Southwestern cannot be realistically examined, nor the tests of § 7 (d) of the Act, 15 USCA § 79g intelligently applied in such an examination unless consideration is given to the possible effects upon the financial structure of the company and its earning power of the contemplated further dispositions of properties and investments.

The properties and investments so required to be disposed of will be carried upon the books of Southwestern after completion of the several transactions presently to be consummated (including accounting adjustments) as follows:

Property to be disposed of—gross	\$5,322,425
—net	\$4,657,125
Net carrying value of investments to be disposed of	8,393,766
Total net carrying value	\$13,050,891

Of course, it is impossible at this time to foresee whether the proceeds of the sale of these properties and investments will be greater or less than the present carrying value thereof. However, if the net carrying value of these properties and investments is considered as a probable approximation of the proceeds which may be realized from the disposition thereof, Southwestern, upon such sale, will have available some \$13,000,000 for reduction of debt, or for such other use as the terms of the indenture, to be executed in connection with the new financing, may permit, and as this Commission may approve.

If the entire amount of the as-

sumed proceeds of such sales were applied in reduction of debt, such debt would be reduced to approximately 43.88 per cent of the capitalization of Southwestern, and the ratio of debt to net property would be reduced to approximately 43.96 per cent.

We cannot, it is true, be certain that all of the proceeds will be so applied. Thus, for example, it might be appropriate that a portion thereof be employed in the construction or purchase of additional operating properties capable of integration with the principal system of Southwestern. However, the percentage of debt in the capital structure of Southwestern and the ratio of debt to property of that company, as computed upon the basis of the pro forma balance sheets reflecting the consummation of the several transactions for which immediate approval is sought, will, nevertheless, be reduced to the extent that any portion of the proceeds of such sales is applied to the reduction of debt.

Of course, aside from such reduction of debt as may be accomplished through the sale of properties and investments, the debt ratios will, to some extent, be improved from year to year as the proposed serial notes mature and are eliminated, and will also be improved to the extent that the earnings of the company are retained by it, rather than paid out in dividends. In connection with the point last mentioned, our order to be entered herein will contain a restriction upon the payment of dividends upon common stock pending our further order, or orders.

We have already discussed the earning capacity of the company in relation to its ability to meet its fixed charges. We see nothing in the fur-

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ther program of the system which would appear likely to result in a reduction of coverage of these fixed charges by earnings to any degree which might adversely affect the prospective holders of the debt securities proposed to be issued.

Fairness of Plan to Persons Affected Thereby

[2] Section 11(e) of the Act requires that before the Commission approve any plan submitted under that section for compliance with the provisions of § 11(b), it must find, not only that such plan is necessary to effectuate the provisions of the latter subsection, but also that it is fair and equitable to the persons affected thereby. Difficult problems frequently arise in making a determination of fairness when a plan calls for the substitution of new securities to holders of different types of securities outstanding before the reorganization in satisfaction of the claims evidenced by the latter securities.

In the instant case, as will have been noted from the details of the several constituent transactions of the system reorganization which have been heretofore outlined, this problem is narrowed, since present publicly held securities of the several companies involved are to be satisfied in full by redemption, or by payment of the liquidation value thereof, with but two exceptions. These exceptions are the outstanding shares of common stock of Community and the outstanding shares of common stock of General. It is proposed that Southwestern shall issue and deliver to the holders of com-

mon stock of Community one share of the common stock of Southwestern for each share of common stock of Community held by such respective stockholders, and that Southwestern shall issue and deliver to the public holders of common stock of General, $1\frac{1}{2}$ shares of common stock of Southwestern for each share of common stock of General held, respectively, by such latter stockholders. A determination as to the fairness of this allocation requires examination into the relative contributions of the two sets of present stockholders to Southwestern as the corporation surviving the proposed merger.

To some extent, such relative contributions are apparent from the facts hereinabove set forth as to the particular securities and properties to be transferred or conveyed by Community and by General, respectively, to the surviving corporation, Southwestern. However, it would seem helpful to more closely analyze the values underlying the presently outstanding common stock of Community and of General and the earnings attributable thereto, in order that the aggregate proportionate contribution of each class of stockholders may be more clearly understood.

The following are consolidated balance sheets, as of December 31, 1941, of Community and of General and a pro forma corporate balance sheet of Southwestern as of the same date, before giving effect to the purchase of the Panhandle properties and before giving effect to the proposed refinancing of Southwestern:

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<i>Assets</i>	<i>Community *</i>	<i>General *</i>	<i>Southwestern * (After Merger)</i>
Property	\$13,546,110	\$12,515,652	\$26,061,762
Investments	4,649,788	5,179,621	7,293,766
Special funds	481,061	100	481,161
Current assets	893,580	711,414	1,604,994
Other assets	7,816	1,027	8,843
Deferred charges	12,152	105,869	118,021
	<u>\$19,590,507</u>	<u>\$18,513,683</u>	<u>\$35,568,547</u>
<i>Liabilities</i>			
Long-term debt:			
Bonds	\$8,262,800	\$12,777,500	\$21,036,500
Notes	640,000	88,000	728,000
Other	43,333		43,333
Current liabilities	729,161	753,541	1,482,640
Deferred credits	43,992	69,382	113,374
Reserve for investments			200,000
Retirement reserve	1,656,351	1,802,403	3,458,754
Contributions in aid of construction	4,874	115,977	120,851
Capital stock:			
Preferred	1,050,700	778,200	1,828,900
Common	3,628,100	574,134	3,855,629
Surplus	3,531,196	1,554,546	2,700,566
	<u>\$19,590,507</u>	<u>\$18,513,683</u>	<u>\$35,568,547</u>

* The above balance sheets are stated on the following bases:

1. Effect has been given to certain proposed adjustments and transfers, in order to make them comparable.

2. Community is consolidated to include the accounts of Texas-New Mexico, but does not include the accounts of Arkansas and General which are included herein as investments.

3. General is consolidated, but the accounts of Gulf and Royal Palm, which are carried herein as investments, are not consolidated.

4. Southwestern is corporate before the purchase of the Panhandle properties and the proposed refinancing adjustments.

Based on the foregoing balance sheets the underlying book value of the common stock of General amounts to \$13.04 per share as compared to \$19.73 per share for the common stock of Community. These balance sheets reflect the carrying value of General's investment in the Arizona companies and Community's investment in General. Substituting the underlying book values of these securities¹⁹ for the carrying values thereof results in an underlying value of \$14.84 per share for the common stock of General as compared with an underlying book

value of \$16.75 per share for the common stock of Community.

The record indicates, on the other hand, that the consolidated earnings²⁰ of General and Community for the year 1941 amounted to \$2.40 per share of common stock and \$1.73 per share of common stock respectively. Eliminating from the consolidated income account of General a nonrecurring item (storm damage) of approximately \$108,000, and giving effect to this elimination in the 1941 consolidated income account of General, earnings per share of common stock of General will amount to \$3.07 per share

¹⁹ The investments in Arkansas and Gulf, as reflected in the foregoing balance sheet, have been adjusted to reflect underlying book values.

²⁰ After giving effect to Community's equity in the consolidated net earnings of General.

SECURITIES AND EXCHANGE COMMISSION

as compared to \$1.90²¹ per share of common stock of Community. This represents a ratio of 1.61 to 1.00 as compared with the proposed exchange ratio of 1.50 to 1.00.

The following tabulation indicates a comparison of the 1941²² earnings per share of common stock of General and Community:

	General	Community
1941 pro forma consolidated earnings per present share after giving effect to the proposed exchange ..	\$3.80	\$2.53
1941 actual consolidated earnings per share (as above)	3.07	1.90

Upon any sound principle of reorganization valuation, the disparity in the proven earning power contributed to the merged enterprise by the stockholders of General and that contributed by the stockholders of Community should receive greater weight than the disparity between the two contributions considered upon the basis of underlying book values.²³

We are not unmindful of the fact that the common stockholders of Community, as distinguished from the common stockholders of General, have been receiving dividend payments upon their stock, while, as has been hereinabove indicated, our order to be entered herein will prohibit the payment of any dividends upon the common stock of Southwestern, pending our further order, or orders. However, we do not attach great importance to this fact, as, despite the progress of Community toward financial rehabilitation, it is, as has been pointed

ed out, an impossibility for that company to continue indefinitely without further major readjustments. In connection with any such reorganization, whether under the plan presently proposed, or otherwise, this Commission might be forced, as an initial step in a compulsory reorganization of the system, to restrict further payment of dividends upon the Community common stock.

As the common stock of Southwestern to be issued in replacement of the common stock presently outstanding of Community and of General is to be of a single class, each share having equal voting rights with every other share, it appears to follow, in this case, that if the allocation of such shares as between the common stockholders of Community and of General viewed purely from a monetary standpoint, is fair and equitable, the accompanying distribution of voting power in the surviving corporation is likewise fair and equitable.

[3] We recognize that underlying book values and past earnings are not the sole criteria of value in cases such as the present one. In comparisons of operating properties not only must these indicia of value be considered but also the geographical location of the properties, the economic characteristics of the territories served and the imminence, or unlikelihood, of changes in the local economies upon which the revenues of the properties are dependent.

The quality of income, localized economic trends, proximity of ap-

²¹ After giving effect to sale of certain properties during the year 1941 and to the proposed sale of Kansas.

²² An examination of comparative earnings figures for earlier years indicates that the re-

lation of the earnings of the two companies during 1941 may be regarded as typical.

²³ Consolidated Rock Products Co. v. DuBois (1941) 312 US 510, 85 L ed 982, 61 S Ct 675.

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proach to customer saturation, and many other pertinent factors not susceptible of arithmetical computations are to be considered. Many of these considerations are expressly taken into account in the testimony regarding values which appears in the record in this case. Others, this Commission, in its capacity as an administrative body, may take notice of independently of the record.

Considering all factors involved, we find the proposed allocation of common stock of the surviving corporation, Southwestern, between common stockholders of Community and General to be fair and equitable.

We have considered the fairness of the plan submitted in respect of the treatment accorded the common stockholders of Community and of General, respectively, the only investors whose claims will not be satisfied in accordance with the terms of the contractual obligations upon which such claims are based. By § 11(e), as has been noted, we are required to find, before approving the plan under that section, that such plan is fair and equitable to "the persons affected by such plan." Throughout the Act, the fact is recognized that the corporate practices and transactions of public utility holding companies, and of their subsidiaries, may affect not only investors in such companies, but also consumers and the general public.

In the instant case, the debt of Southwestern will be greater upon the completion of the several transactions involved than it is now. It seems clear that the subjection of operating properties of a public utility holding company system to debt incurred by holding companies upon the basis of

equity ownership of operating companies, may be objectionable from the consumers' viewpoint, and from that of the general public, in that such debt burden may present an obstacle to the financing by the operating utilities of improvements and additions necessary for adequate service. For this reason we have given careful consideration to this feature of the plan now before us. An analysis of the several transactions, however, indicates that Community and General are contributing to Southwestern, through the proposed merger, net property and investments in excess of the net amount of additional debt which Southwestern will have outstanding as a result of the merger.

Such an analysis further discloses that the increase of the aggregate senior securities of Southwestern from the present amount to that shown upon the pro forma statements reflecting the consummation of all of the proposed transactions results, to a large extent, from the necessity for the payment in cash of the purchase price of the Panhandle Companies, and for payment in cash of expenses incident to the refinancing. In effect, this latter transaction is accomplished wholly through the issuance of senior securities, a feature of the plan which might be objectionable if balancing factors were not present. Among such balancing factors, two may be particularly noted. The integration of the principal properties of the Panhandle Companies with the principal system of Southwestern appears desirable from the viewpoint of investors, consumers, and the general public. The permanent retention of the Panhandle Companies in The United Light and Power

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Company system, which presently controls them, cannot be permitted under § 11(b)(1) of the Act, and the proposed disposition thereof is not only in the interest of the consumers served, but also in that of the investors and consumers of The United Light and Power Company system.

Conclusions

Compliance with section 11(b) of the Act.

[4] As has been heretofore noted, at the time of the institution of the present proceeding, the corporate complexities of the Community system, and the widespread geographical distribution of the system properties, as well as the diverse characters of the several businesses engaged in by the operating companies, made the continued existence of such system in its then form patently violative of both § 11(b)(2) and § 11(b)(1). As has also been noted hereinabove, since these proceedings were instituted, a number of important steps have been completed which have resulted, in each such case, in bringing the system closer to the standards laid down in § 11(b). The further steps presently proposed to be consummated, and described in these findings, are such not only as to achieve a much closer approach to these statutory standards, but also are such as to place Southwestern, which succeeds Community as the controlling parent of the system, in a much better position to take such additional action as may finally be required to conform the system in all respects to the standards prescribed by the Act. We, therefore, have no difficulty in finding, and find that the proposed plan, subject to our approval

as to certain particular features thereof upon which the record is not yet complete, and, subject likewise, to the several conditions and reservations of jurisdiction, hereinafter set forth, is necessary to effectuate the provisions of § 11(b).

Similarly, in view of what has been said heretofore in these findings, we find the plan, subject to the qualifications set forth in the preceding paragraph hereof, to be fair and equitable to the persons affected thereby.

In addition to the several features of the plan presented in this proceeding for which definitive approval is sought at this time, it is recognized, as has been hereinabove pointed out, that certain further steps are presently obviously desirable in the progress of the subject system toward full compliance with the requirements of § 11(b) of the Act, and are, in fact, a part of the general program contemplated by the applicants. The proponents of the plan have indicated in the record herein their willingness that the Commission condition its approval of the plan presently formally presented upon the taking by Southwestern of these several obvious steps within a reasonable time after the consummation of the proposed merger, and have further consented that such action upon the part of Southwestern be expressly directed by the order of the Commission to be issued in this proceeding.

Accordingly, our order of approval of the plan presently proposed will contain a condition and a direction to the effect that, within one year from the date of the entry of such order, unless such time shall be further extended by us, Southwestern shall take such action as may be necessary to divest

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itself of all ownership and of all control of (1) the physical properties in east-central Texas to be owned by it after consummation of the proposed merger and related transactions, presently owned by Texas-New Mexico and by Gulf, which properties are not capable of economical interconnection with, nor otherwise permissible of retention with the principal electric utility system to be owned by Southwestern at the conclusion of the several transactions for which approval is particularly sought in this proceeding, and (2) of Gulf, or of the physical properties owned or controlled by Gulf, such properties being, likewise, not such as may be permissibly retained by Southwestern in connection with the principal operating properties of that company, (3) of the Arizona companies, namely, Flagstaff, Arizona, Holbrook, and Southwestern Ice, which latter companies are likewise not retainable by Southwestern, (4) of Royal Palm, similarly not retainable, and (5) of Arkansas, likewise impossible of retention.

It would appear that the major problems of compliance by the system with the integration standards of § 11 (b)(1) will be solved when the several dispositions of securities and properties mentioned in the preceding paragraph hereof are effected. However, it may be that there will still remain within the system holdings some individual properties and it will still be engaged in certain types of activities which may not be permanently retainable or susceptible of continuation under the standards of the cited section. Of course, nothing contained in these findings and opinion is to be construed as an indication that the Com-

mission may not, at some future time, require such supplementary action, if any, as may still be needed under § 11 (b).

Compliance with statutory requirements additional to those expressly set forth in § 11(e) of the Act.

While § 11(e) of the Act prescribes findings that a plan submitted under that section (1) is necessary to effectuate the provisions of § 11(b), and (2) is fair and equitable to the persons affected by such plan as conditions precedent to our approval of a plan so submitted, yet in addition to these general findings, or as constituent part thereof, we must also determine that such of the several individual transactions which go to make up the plan as a whole, as require our approval under other sections of the Act, meet the particular tests set forth in such other sections. In the present case there are a number of distinct, although related, transactions of the type last mentioned.

The several intrasystem conveyances and transfers, which it is considered unnecessary again to describe at this point, require our approval under § 12 of the act, 15 USCA § 79l and the rules promulgated pursuant thereto. These several transfers and conveyances, hereinabove reviewed in detail, are approved. The intrasystem acquisitions involved in the consummation of the plan presently before us, notably those by Southwestern, we find, meet the requirements of § 10 of the act, 15 USCA § 79j, particularly finding that such acquisitions, in the light of their relation to the plan as a whole, and despite the fact that Southwestern may hereafter be re-

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quired to dispose of certain portions of the securities and properties so to be presently acquired by it, will serve the public interest by tending towards the economical and efficient development of an integrated public utility system, as required by § 10(c)(2).

As heretofore stated, the sale of Kansas is being treated in a separate opinion and order. The acquisition of Panhandle, Cimarron, and Guymon by Southwestern from nonaffiliated interests has the tendency required by § 10(c)(2), as it must have for us to approve it. While such acquisition viewed as a whole, which it must be in the present case, has this tendency, it may be that not all of the particular properties involved in this acquisition may be permanently retained under the standards of § 11(b)(1). The other requirements of § 10 are also met. The sale of Panhandle, Cimarron, and Guymon to Southwestern by Continental Gas & Electric Corporation, as distinguished from the purchase thereof by Southwestern, is also subject to our jurisdiction under the Act, and that phase of the transaction is being made the subject of a separate opinion and order.

The several capital contributions involved in the plan require our approval under § 12(b) of the Act and Rule U-45 promulgated pursuant thereto. This approval is granted. The acquisition and retirement by the several companies here involved of the presently outstanding securities of such companies in the manner, and to the extent set forth in the plan, as amended, are approved by us pursuant to § 12(c) of the Act.

The plan under consideration contemplates the assumption of certain

liabilities of Community and of General by Southwestern. This assumption requires our approval under §§ 6 (a) and 7 of the Act and that approval is granted. The issuance of new common stock by Southwestern in replacement of the presently outstanding common stock of Community and of General also requires our approval under § 7, as do the issuance and disposition (intrasystem) of new securities by Gulf and by Royal Palm in connection with the readjustment of the capital structures of these two companies. As in the case of the assumption of liability by Southwestern and the issuance of common stock by it, we find that the standards of § 7 of the Act are met and that such issuance and disposition should, accordingly, be permitted.

The material to be used in the solicitation of assents of stockholders of Community and of General to the proposed plan of merger has been submitted to us pursuant to § 11(g) of the Act and our rules under that section. Such submission is permitted to become effective as a declaration in regard to such solicitation material and the use thereof, as proposed, is approved. The report of this Commission upon the plan, as required by the cited section, is being issued concurrently with the filing of these findings and opinion, which report will be transmitted to the persons solicited, together with the solicitation material.

[5] In connection with such solicitation it is represented by the proponents that, in addition to the activities of the officers and regular employees of the companies involved, the cooperation of investment houses and brokers will be sought, especially in "fol-

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lowing-up" such particular solicitations. It is further represented that no compensation will be paid to such investment houses or brokers, or their employees, for such assistance, although it is expected that such expenses as telephone, telegraph, and travelling expenses as such persons may incur will be the subject of reimbursement. It is further stated that a question has been raised by certain investment houses of whether, under our Rule U-62(g)(2)(A) the company or the individual so assisting in such solicitation efforts may not be barred from participation in the underwriting and in the selling of the securities proposed to be issued and sold by Southwestern upon the consummation of the proposed merger. It is pointed out by the proponents of the plan that such investment houses and brokers, whose assistance is deemed necessary in connection with the solicitation efforts of the companies, may be reluctant to render assistance of the type indicated if by reasons of such action, they are precluded from the possibility of participating in the subsequent sale of securities by Southwestern. To the extent that such action might be interpreted as subjecting such persons to the disqualification imposed by the cited subparagraph of Rule U-62, our order to be entered herein will exempt such persons from any disqualification arising by operation of such rule, such exemption being granted pursuant to Rule U-100.

Approval by state regulatory bodies.

The only state body having jurisdiction over any of the several features of the plan is the New Mexico Public Service Commission. This

Commission has approved those features of the plan which come within its jurisdiction.

Dividend Restriction and Creation of Reserve for Investments

Our order will contain a condition requiring that Southwestern, upon the consummation of the proposed merger, set up on its books a reserve account in the amount of \$200,000 for application against such losses, if any, as may hereafter be realized upon any sale of its investments.

Our order will also provide that Southwestern shall not declare or pay any dividend upon its common stock, nor make any other distribution thereon, pending the further order of this Commission.

Questions Reserved for Later Determination

Issuance and Sale of Bonds, Notes, and Preferred Stock by Southwestern.

We recognize that the consummation of the plan presently before us is dependent upon a successful refinancing to be effected by Southwestern through the issuance and sale of securities by that company. Such issuance and sale cannot legally take place, except with the approval of this Commission. Therefore any approval upon our part of the plan submitted necessarily implies an indication that, in the light of conditions as they exist as of this date, we see no insuperable difficulties in approval of the issuance and sale by Southwestern of bonds, notes, and preferred stock of that company, as proposed. However, definitive details as to the terms and conditions of these securities, the prices at which the same are to be sold, the

SECURITIES AND EXCHANGE COMMISSION

expenses to be incurred, and remuneration to be paid, and underwriting spread to be allowed are not in this record. Moreover, it is not impossible that other factors may be in existence at the time when such issuance and sale are proposed to be made, presumably some weeks hence, which should also be then considered by us in the light of § 7 of the Act. In this connection, it should be borne in mind that while, as has been stated, an order approving the plan may be considered as indicating that we see no insuperable objections to the issuance and sale of securities, as proposed, by Southwestern after the merger, such approval is not to be deemed indicative that we would consider the alteration of the relative amounts of debt securities and equity securities, nor the alteration of the rates of return thereon, as similarly susceptible of approval, even if the sale prices, expenses and other matters not yet incorporated in the record should present no new obstacles to approval.

Jurisdiction will be reserved in respect to the issuance and sale of the securities proposed to be issued and sold by Southwestern to the public, pending completion of the record herein in respect thereof, and the further order of the Commission to be entered in the light of such completed record.

Fees and expenses.

An estimate has been filed in the record of the fees and expenses incurred and to be incurred in connection with the plan which is now before us for approval, including fees and expenses directly attributable to particular individual transactions the consummation of which constitute a part of the plan as a whole. The aggregate
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of such fees and expenses is estimated at \$380,000. We do not consider it necessary or appropriate for us to pass at this time upon the reasonableness of these fees and expenses, the record not yet having been completed in respect of a most important feature of the plan, namely, the issuance and sale to the public by Southwestern of the new securities proposed to be so issued and sold by it. We shall, therefore, reserve jurisdiction in respect of a determination of the reasonableness of such fees and expenses and approval or disapproval thereof.

Proposed charges to capital surplus of Southwestern subsequent to completion of merger.

A request is made that, to the extent that the earned surplus of Southwestern, as such earned surplus will exist subsequent to the consummation of the proposed merger, is insufficient for the payment of dividends upon the preferred stock proposed to be issued by Southwestern, such dividends may be permitted to be declared and paid from the capital surplus of Southwestern for the first four quarter annual periods ending after the date of the consummation of the merger. We believe that this request may more satisfactorily be considered if action thereon is deferred until final approval shall have been granted for the issuance and sale of the preferred stock mentioned, at which time further information will be available as to the exact amounts so sought to be charged and as to the necessity and propriety of such charges in the light of conditions as the same may then exist.

Advance approval is also sought of certain other charges to the capital surplus of the resulting corporation,

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Southwestern, which the proponents of the plan believe it may be necessary or desirable to make. Neither the necessity nor the propriety of these charges is presently apparent and action by us in respect of such request would appear to be premature until such time as occasion for the making of such charges may arise.

We will reserve jurisdiction in respect of the particular request first mentioned, for consideration thereof, at the time that any order may be entered by us permitting the issuance and sale of the preferred stock involved, and we will reserve jurisdiction in respect of the remaining requests for the making of charges against capital surplus, pending our further order, or orders, relative thereto, such order, or orders, to be entered upon the submission of further evidence at such time, or times, as the approval or disapproval of such requests may become a matter of immediate importance rather than of academic interest.

Our order to be presently entered herein will contain a condition to the effect that no charge shall be made to the capital surplus of Southwestern, after the merger is consummated, pending our further order, or orders.

An order will issue approving the plan submitted, subject to the several conditions and reservations of jurisdiction, and containing the several affirmative directions indicated in these findings and opinion.

ORDER

Community Power and Light Company, General Public Utilities, Inc., and Southwestern Public Service Company, each of which is a registered holding company, and companies subsidiary thereto, having filed applica-

tions and declarations, and amendments thereto, pursuant to § 11(e) and other sections of the Public Utility Holding Company Act of 1935, and the Rules and Regulations of this Commission promulgated thereunder, whereby said applicants request approval of a plan submitted pursuant to said § 11(e), a report upon such plan by this Commission pursuant to § 11(g) of said Act and authorization for certain particular transactions, constituting component parts of said plan, and actions incidental thereto, including, among other things, a merger of said three registered holding companies, and, in connection with such proposed merger the transmission of certain solicitation material to the common stockholders of Community Power and Light Company and of General Public Utilities, Inc., intrasystem sales and acquisitions of certain properties and securities, the liquidation of certain subsidiary companies, the recapitalization of certain remaining subsidiaries, the acquisition of certain properties from nonaffiliated interests, the refinancing of the surviving parent company, Southwestern Public Service Company, as well as the exemption, pursuant to Rule U-100, of such investment houses and brokers and the members, officers, and employees of such investment houses, or brokerage firms or companies as may render services (without compensation, other than reimbursement for expenditures made) in connection with the solicitation of assents of stockholders to said merger agreement, from any disqualification which might otherwise be imposed upon such companies or individuals by reason of Rule U-62(g) (2) in respect of future participation

SECURITIES AND EXCHANGE COMMISSION

in the purchase or sale of any securities which may hereafter be issued and sold by said Southwestern Public Service Company;

A public hearing having been held after appropriate notice, and the Commission having considered the record and having made and filed its findings and opinion herein; and

The Commission having found, subject to the conditions and reservations hereinafter set forth, (1) that the plan, for which approval is so sought, is necessary to effectuate the provisions of § 11(b) of the Act, (2) that the plan is fair and equitable to the persons affected thereby, (3) that the requirements of Rule U-62(g)(2) as applied to the prospective activities of investment houses and brokers and of the members, officers, and employees of such houses and firms, in respect of the buying and selling of any securities which may hereafter be issued and sold by Southwestern Public Service Company, are neither necessary nor appropriate in the public interest or for the protection of investors or consumers, and (4) that all other applicable requirements of said Act have been satisfied;

It is hereby *ordered*, that said plan be, and the same is hereby, approved, that said applications, as amended, be, and the same are hereby, granted, and that said declarations, as amended, be, and the same are hereby, permitted to become effective forthwith, subject, however, to the following conditions and reservations:

(1) Southwestern Public Service Company, upon the consummation of the merger proposed to be made in pursuance of the plan for which approval is sought in this proceeding, and the acquisition by said company

of the properties to be acquired by it which are presently owned by Panhandle Light and Power Company, Cimarron Utilities Company and Guymon Gas Company, will immediately enter upon a program of amortization of the amount designated in said corporation's pro forma balance sheet, (reflecting said acquisitions and certain other transactions) filed in this proceeding, as "Excess Cost of Net Assets Acquired over Value Recorded in Accounts of Predecessor," said amount being \$442,790.94. Such amortization shall be effected by the writing off of said aggregate amount through charges against income or earned surplus to be made in substantially equal amounts annually over a period of five years from the date of the acquisitions;

(2) Southwestern Public Service Company, upon the consummation of the merger above mentioned, shall create upon its books a reserve in the amount of \$200,000 against any losses which may hereafter be realized upon the securities to be acquired by it through said merger, or otherwise pursuant to said plan, proposed to be carried upon the books of said corporation as investments;

(3) Upon consummation of the above mentioned merger, Southwestern Public Service Company shall not declare or pay any dividend upon the common stock of that corporation, nor shall it make any other payment or distribution thereon, by purchase, or otherwise, in money or other property, pending the further order, or orders, of this Commission, except that such restriction shall not apply to any payment which may be made in connection with any rights, or asserted rights, of appraisal and payment which

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any stockholder of Community Power and Light Company and/or General Public Utilities, Inc., may have under any state statute applicable to said proposed merger;

(4) That within one year from the date of the entry of this order, unless such time shall be further extended by this Commission, Southwestern Public Service Company, the surviving parent company, shall take such action as may be necessary to divest itself of all ownership and all control of:

(a) The physical properties in east-central Texas to be owned by said Southwestern Public Service Company after consummation of the proposed merger and related transactions which are, at present, owned by Texas-New Mexico Utilities Company and by Gulf Public Service Company, respectively;

(b) Gulf Public Service Company of the physical properties owned or controlled by it;

(c) Flagstaff Electric Light Company;

(d) Arizona Electric Power Company;

(e) Holbrook Light and Power Company;

(f) Southwestern Ice Company;

(g) Royal Palm Ice Company; and

(h) Arkansas Utilities Company.

(5) That no charge shall be made to the capital surplus account of Southwestern Public Service Company, after said merger is consummated, pending the further order, or orders, of this Commission;

(6) That jurisdiction be, and is hereby, reserved with respect to the issuance and sale of the securities proposed to be issued and sold to the public by Southwestern Public Service

Company, and with respect to the imposition of conditions relative to such securities and their issuance and sale, until the terms and provisions of such new securities and of the sale thereof shall be submitted to this Commission in definitive form, and a further order, or further orders entered in respect thereof;

(7) That jurisdiction be, and is hereby, reserved in respect of the reasonableness, and approval or disapproval, of fees and expenses incurred, and to be incurred, in connection with the subject plan, and transactions incident thereto;

(8) That jurisdiction be, and is hereby, reserved to this Commission to entertain such further proceedings, to make such further and supplemental findings, and to take such additional and further action, as may be found by it to be appropriate in the premises in connection with said plan and the several transactions incident to the consummation thereof;

(9) That the several transactions, approval or authorization of which is granted by this order, shall be carried out in accordance with the terms and conditions of, and for the purposes stated in the declarations and applications, as amended, filed in this proceeding;

(10) That the material to be transmitted to the common stockholders of Community Power and Light Company and of General Public Utilities, Inc., shall be accompanied by a copy of the report of this Commission on the plan which is the subject of this proceeding, which report is being entered and issued concurrently with the entry of this order.

It is *further ordered* that Southwestern Public Service Company shall

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take the several actions, recited in those conditions of this order numbered (1), (2), and (4), as in said

conditions set forth, and shall comply with those restrictions recited in that condition numbered (4) of this order.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

William H. Hayes et ux

v.

Burgess and Town Council of Borough
of Morrisville

[Complaint Docket No. 13724.]

Reparation, § 11 — Commission jurisdiction — Advances for extension.

The Commission has no jurisdiction over a complaint alleging that a public utility refuses to refund advances made for extensions of water service to a real estate development made under a contract between the parties.

[September 9, 1942.]

COMPLAINT *alleging refusal to refund advances made for extension; dismissed.*

By the COMMISSION: This matter comes before us upon complaint filed by William H. Hayes and Anna C. Hayes, his wife. The complaint alleges the respondent's refusal to refund advances made by the complainants for extensions of water service to the real estate development on the West Acres in Lower Makefield township, Bucks county. The advances were made under contracts entered into between the complainants and respondent. Respondent filed an answer attacking the jurisdiction of the Commission.

The Commission has in several cases held that where the basis of a complaint before the Commission arises purely and solely out of contractual obligations between complainant and respondent, and no question of rates or service is involved, then the Commission has no

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jurisdiction, but complainants must have recourse to courts of law.

The matters complained of by William H. Hayes and Anna C. Hayes, his wife involves contractual obligations. No question of the reasonableness of the rates or adequacy of service, which generally speaking are the fundamentals of the Commission's power to act, is involved in this case.

All of the allegations in the complaint have been fully considered and found not to be within the jurisdiction of the Commission; therefore,

Now, to wit, September 9, 1942, it is *ordered*: That the complaint of William H. Hayes and Anna C. Hayes, his wife, against the burgess and town council of the borough of Morrisville, be and is hereby dismissed.

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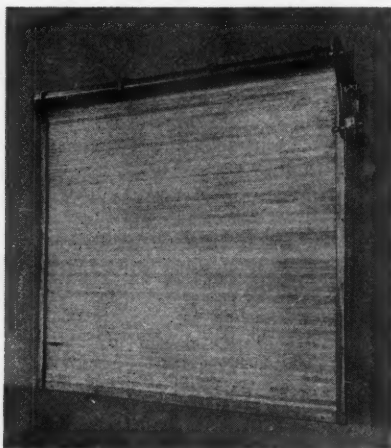
Selected information about products, supplies and services offered by manufacturers. Also announcements of new literature and changes in personnel.



Equipment Notes

Wood Rolling Door

The Kinnear Manufacturing Co. of Columbus, Ohio, announces production of an upward-acting, wood rolling door providing a much needed answer for war-time door requirements, and offering a type of door operation



Offers Same Advantages As Steel Door

preferred for many openings. By incorporating the same upward-operating principle used for many years in the famous Kinnear Steel Rolling Door, this product is reported to afford many of the same advantages as the steel door, including overhead storage, space economy, convenience, neat appearance, and long years of service. In addition, The Kinnear Wood Rolling Door makes slashing reductions in the use of vital war materials, permitting its unlimited use.

Coiling as it does above the lintel, The Kinnear Wood Rolling Door does not require any floor, wall, or ceiling space for its operation.

70 MASTER-LIGHTS

- Electric Portable Hand Lights.
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- Emergency (Battery) Floodlights.

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MASTER-LIGHT MAKERS

When raised, it is completely out of the way of damage, leaving a clear, unobstructed opening. Permanently mounted on the face of the wall or between-jambes and built to order in any practical size, it can be readily installed in old or new buildings.

Egry Com-Pak Register

Many time-, material-, and money-saving advantages are claimed for Com-Pak Registers by the manufacturer, The Egry Register Company, Dayton, Ohio.

Either manually or electrically operated, the Com-Pak is designed to discharge all copies or to retain a record copy in a locked, tamper-proof compartment within the register. Copies are discharged from either the front or the side. Built in a number of models and sizes, Com-Pak is claimed to be ideal for use wherever handwritten records are made.

The Com-Pak Auditor is a combination of the Egry Com-Pak Register and a cabinet cash drawer in an integral unit which, according to Egry, assumes complete control over every transaction involving the cash drawer because it is impossible to open the drawer until record has been made.

The Com-Pak Summary not only gives detailed information on the transaction, but also provides a summarized record at the same writing. The Com-Pak Analyzer goes a step further and provides an analysis as well as a summary when forms are written.

All models use Egry Continuous Forms.

Acme Four-Lamp Ballast Now Available

Acme Electric & Mfg. Co. of Cuba, New York, announces that the new Acme model F 100-25 lamp ballast for four 100 watt fluores-



Model F 100-25

cent lamps is now available for use on industrial lighting orders or replacements carrying high priority ratings. Because the use of this unit will largely be in fixtures in war production plants, the electrical characteristics correspond to the majority of such applications.

The manufacturers claim that the F 100-25, four lamp ballast is designed to provide equalized and balanced secondary voltage to each lamp. Providing starters and switches are in

Mention the FORTNIGHTLY—It identifies your inquiry

DAVEY TREE TRIMMING SERVICE



1846

1923

JOHN DAVEY

Founder of Tree Surgery

Tailored Trees

Davey men know the ins and outs of top-clearance, side-clearance, drop-crotching and all the rest. If you want some special type of trimming, they can do it expertly. Try Davey service.

Tree interference may aid the Axis

DAVEY TREE EXPERT CO.

KENT, OHIO

DAVEY TREE SERVICE

INSIST ON

Parsons

Papers

FOR YOUR

Forms
Records
Stationery

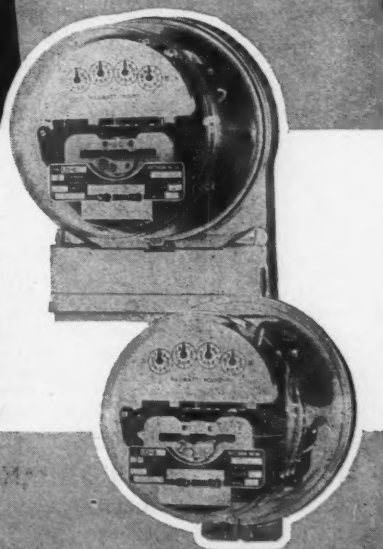
Superior Quality

MADE FROM COTTON FIBERS

PARSONS PAPER CO.
HOYOKE · MASSACHUSETTS

★ THE Future OF MODERN METERING

THE cooperation of the electric utility industry with the watt-hour meter manufacturers has kept the design and development of the modern watt-hour meter well ahead of metering requirements. Thanks to this cooperative spirit, watt-hour meters will again play their important part in system modernization when normal times are once more restored.



SANGAMO ELECTRIC COMPANY

SPRINGFIELD · ILLINOIS

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Equipment Notes (Cont'd)

good order this would assure all four lamps of the unit lighting at same time.

Core and coil elements of this ballast are said to be impregnated and compounded to minimize normal resonant vibration thus reducing the sound level to a negligible point.

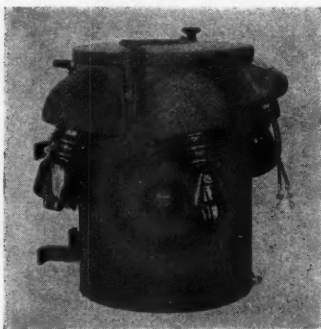
Descriptive bulletin 157 may be obtained from the manufacturer.

Fluorescent Fixture Mounting Device

All continuous-row industrial fluorescent fixtures manufactured by Sylvania Electric Products, Inc., now come completely equipped with Sylvania "Slide-Grip" hangers. According to the manufacturer, these adaptable mounting clamps provide faster installation and easier maintenance, and, due to their flexibility allow for a better alignment of fixtures. This new device offers a variety of applications for chain, surface, rod or messenger-cable mounting.

New Oil Switch Increases Protection For High-Voltage Lighting Systems

A new Novalux controller which assures increased protection against electrical breakdown on high-voltage circuits has been announced by the General Electric Company.



G-E Novalux Controller

This solenoid-operated oil switch is for use with constant current transformers energized from distribution systems up to 7620 volts, and has 15-kv class insulation as specified by ASA Insulation Standards for Transformers, Regulators and Reactors. It was designed primarily for use on protective lighting circuits served from distribution systems operating at voltages up to 7620/13,200 V.

DICKE TOOL COMPANY

DOWNERS GROVE, ILL.

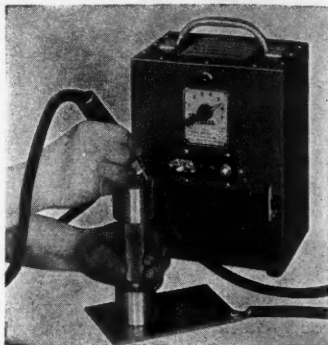
Manufacturers of

Pole Line Construction Tools

They're Built for Hard Work

New Electric Etcher

To meet the present day demand for standardization of equipment, Ideal Commutator Dresser Co., has designed a new model etcher to cover a wide range of etching heads.



Marks Anything of Steel, Iron, or Their Alloys

This unit called the No. 18 "Machine Shop" metal etcher has 14 heats from 115 to 1300 watts. With it, the manufacturer claims one can etch everything from thin, delicate metal parts to large, smooth castings.

The manufacturer points out that there is a great need for permanently marking equipment, thus preventing costly mistakes, discouraging theft and saving valuable time.

New Communication System

Executone, Inc., announces that they have developed a new improved Executive-Monitor communication system consisting of two or more master stations connecting up to 19 remote stations in the system. Incorporating a new combination of Executone standard features, this system is claimed to offer an ideal arrangement for plants where conversations must be carried on between officers, assistants, and remote departments.

The Executive and Monitor stations can either talk to each other, or carry on two-way amplified voice conversations with remote desk or trumpet-type substations in outlying departments. The interceptor-control feature enables the assistant at the Monitor station to intercept all incoming calls originating at the remote stations.

Both Executive and Monitor stations are equipped with busy signals which show when other stations are in use. The Executive station, however, has the optional facility of right-of-way over busy stations for emergency use. A paging button enables the user of any master station to call all other stations simultaneously, for paging and locating persons instantly, and for issuing emergency warnings or general announcements to the entire staff.

Persons called can reply remotely without leaving their work to approach the station. High-powered trumpet-type substations pro-

Mention the FORTNIGHTLY—It identifies your inquiry

WHAT!**2500 BOXES OF
CARBON PAPER
THROWN AWAY?****YESSIR - IN ONE YEAR,
BUT WE COULD HAVE
SAVED 2485 BOXES**

You're right, young lady! The Egray Speed-Feed would have saved the 2485 boxes of carbon paper that went into the waste basket. The Speed-Feed converts any typewriter into a billing machine in one minute . . . steps up the output of typed forms per day 50% (even more) . . . and eliminates the use of costly, wasteful, pre-inserted one-time carbon forms!

Yes, a user of the Egray Speed-Feed and 50,000 five-part 8½" x 11" Egray Continuous Printed Forms per year saves 2485 boxes of carbon paper annually. In dollars and cents that saving will more than pay for the use of the Speed-Feed for a century or more! Literature on request. Demonstration in your own office without obligation. Address Dept. F-115.

**EGRY SPEED-FEED**
The EGRY REGISTER Company
Dayton, Ohio
SALES AGENCIES IN ALL PRINCIPAL CITIES

Egray Continuous Forms Limited, King and Dufferin Streets, Toronto, Ontario, Canada

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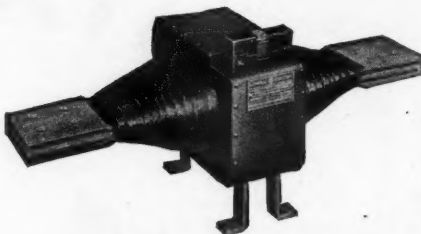
Equipment Notes (Cont'd)

vide extra sound volume to cover large space areas or penetrate high-noise levels. Push-button selection facilitates speed of operation.

This system is UL approved and licensed under A. T. & T. patents, and is serviced and installed by the manufacturer's representatives.

New Indoor Current Transformer

A new indoor current transformer, Type JK-9, is announced by the General Electric Company. It is rated 15 kv, 1000 to 4000 amp.



Supersedes Type KC-51

This transformer has better accuracy, higher insulation, and is smaller in size than the Type KC-51 it supersedes.

According to the manufacturer, the high accuracy of this transformer makes it ideal for relay applications—particularly differential relaying—as well as for metering service. During overcurrent conditions, with a burden Z, all ratings will be well within eight per cent of the true ratio at 20 times normal current.

The JK-9 is six inches shorter than the superseded design, therefore requires less mounting space.

For additional information about this new transformer, ask for Bulletin GEA-3876.

Catalogs and Bulletins**ATC Bulletins**

Automatic Temperature Control Company, Inc., Philadelphia, Pa., has issued Bulletin G-16, which lists current publications of the company. Names, addresses and telephone numbers of the company's sales representatives in 16 important cities throughout the country and in England and Canada also are given.

Among the most recent publications of the

company are the following: Time Control Condensed Catalog (B-2); Standard Control Systems for Fuel-fired Furnaces (A-14), Types B and BF Valves (V-9).

"Wave Shape of Multi-Phase Rectifiers"

Methods of providing multi-phase operation of rectifiers in large capacity installations are described in Engineering Report No. 49, "Wave Shape of Multi-Phase Rectifiers," published by joint subcommittee on development and research, Edison Electric Institute and Bell Telephone System.

Results of field tests are presented for situations employing 24, 30, 36 and 60 phases to illustrate the benefits of multi-phase operation from the inductive coordination standpoint.

Cop-R-Loading

Cop-R-Temp loading, a method of transformer loading which saves critical materials by eliminating "overtransforming" is described in a new booklet issued by Westinghouse Electric and Manufacturing Company.

A copy of booklet B-3103 may be secured from department 7-N-20, Westinghouse Electric and Mfg. Co., East Pittsburgh, Pa.

Turret Lathe

A new catalog, No. 67-W, of South Bend 2-H Turret Lathes has been recently issued by the manufacturer.

This 8-page catalog fully describes and illustrates these lathes and the numerous attachments and accessories which are available for adapting them to various types of production work. Important construction features of the lathes and their operation are explained. Tabulated specifications give full information on capacities, speeds, feeds, and dimensions.

Copies can be obtained by writing to South Bend Lathe Works, South Bend, Ind.

Centrifugal Pumps

Bulletin B6059-H, issued by Allis-Chalmers Mfg. Co., Milwaukee, contains what the manufacturer considers to be one of the most complete compilations of facts ever issued on a complete centrifugal pump line.

The variety of emergency wartime applications has been kept in mind in preparing the concise descriptions, charts and diagrams in the new book. Construction features, sizes and capacities are listed in a manner which simplifies the choice of proper pumping equipment for specific needs.

Included in the bulletin are pump types for every purpose—single and double suction, sin-

BLACKOUTS and other WAR MEASURES DEMAND PROTECTIVE LIGHTING

WHEAT

Rechargeable Spotlight

KOEHLER MFG. CO. Marlboro, Mass.

25,000 Beam C.P.
2,500 Ft. Beam
12 A.H.—4 Volt
Weight 6 lbs.
1,000 Hours
Battery Life



Mention the FORTNIGHTLY—It identifies your inquiry

Save Critical Materials

Use this table as a guide
for overloading
Pennsylvania
Power Transformers

Approximate Load in per cent of 55° C. Self- Cooled Rating	Permissible Top-Oil Temperature
100%	75°C
115%	70°C
129%	65°C
142%	60°C
154%	55°C
166%	50°C

HOW TO USE OVERLOAD-TEMPERATURE TABLE

With any continuous load shown in the first column of the table, the top oil temperature in the transformer should not exceed the corresponding value shown in the second column. Intermediate values may be obtained by direct interpolation.

EXAMPLE: If a transformer, while carrying 100% load, is found to have a top oil temperature of 75° C., and it is desired to carry 29% overload on this transformer, additional cooling must be provided to bring the top oil temperature down to

65° C., when the transformer is carrying 129% load.

• • •

It is not always necessary to provide additional cooling in order to obtain additional capacity. Low ambient temperature, low load factor, and similar conditions will permit the transformer to be overloaded to the extent shown in the table, as long as the corresponding permissible oil temperatures are not exceeded.

ADDITION OF FORCED COOLING

Increased rating may be obtained economically by the addition of forced-air-cooling fans, or forced-oil-cooling units. For information as to type, number, and size of fans and cooling units, you are invited to consult our Engineering Department.

LIMITATIONS

The above guide applies to Pennsylvania Power Transformers which have been properly operated and maintained. The oil must be in good condition as indicated by dielectric strength and color. Samples of oil may be sent to our factory where they will be tested without charge.

Before applying overloads to transformers, a careful check

should be made of the thermal capability of all associated equipment, such as circuit breakers, switches, current transformers, cables, meters and relays. Before exceeding 135% load on any transformer, it is recommended that advice be obtained from our Engineering Department as to any limitations involved, such as oil expansion, pressure in sealed-type units, bushing ratings, etc.



Pennsylvania TRANSFORMER COMPANY
808 RIDGE AVENUE • N. S., PITTSBURGH, PA.

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Catalogs and Bulletins (Cont'd)

gle and multi-stage, mixed and axial flow, combined Allis-Chalmers units and special pumps to solve special problems. Recommended applications for the one-package pump unit, the A-C Electrifugal, are also included.

Manufacturers' Notes*Herrington Director of Aviation Corp.*

A. W. Herrington, board chairman of The Marmon-Herrington Company, Inc., Indianapolis, Indiana, has been elected a director of The Aviation Corporation. As president of the Society of Automotive Engineers and as a Governor of the American Society of Military Engineers, Mr. Herrington's abilities, both as an executive and as an engineer, have been recognized. The company which he founded with the late Walter C. Marmon is now one of the large producers of military units in the Midwest.

Mr. Herrington was appointed by President Roosevelt as technical advisor to Col. Louis Johnson on the recent American Economic Mission to India.

The Aviation Corporation and affiliates are builders of Consolidated and Vultee airplanes, operators of several plants building essential airplane parts, and The New York Shipbuild-

ing Corporation. Consolidated builds the famous B-24 bomber, and Vultee is a large producer of basic trainer planes for the Army and Navy.

Westinghouse Elects Two Vice Presidents

H. V. Putnam, manager of the company's transformer division, and Harry F. Boe, manager of the district repair and manufacturing department, were recently elected to the rank of vice president by the board of directors of the Westinghouse Electric & Mfg. Company.

Thornton Drives for Alaskan Highway

The Thornton Tandem Company of Detroit, Michigan, manufacturers of the Thornton Four-Rear-Wheel Drive for motor trucks, has started to make deliveries on five hundred units for a prominent construction company, to be used on the new Canada-Alaska Highway. The Thornton units are applied to Ford trucks and are then equipped with 6-yard dump bodies made by the Anthony Company of Streator, Illinois. These bodies are 10½ ft. long. The Thornton Four-Rear-Wheel Drive utilizes two driving axles under the load and provides a heavy-duty performance for on or off-the-road operation.

The "Alcan" highway, which has been termed "America's Burma Road," starts at Edmonton, focal point for the railways and highways that run South and East of the

At your Service!



• Whatever the demands of the gas industry may be, Connelly is equipped to meet them. With our new laboratory for scientific testing of purification materials and greatly increased facilities for the production of Iron Sponge, Governors, Regulators, Back Pressure Valves and other equipment for gas purification and control, Connelly is at your service, ready for any emergency.

Under the able management of Mr. A. L. Smyly, pioneer in gas purification and pressure regulation, this organization has continued its leadership in the field, and the fact that Connelly products are standard in hundreds of the leading gas plants of the country is indicative of the service rendered.

• Mr. A. L. Smyly
President
Connelly Iron
Sponge &
Governor Co.

Connelly

IRON SPONGE and GOVERNOR Company
CHICAGO, ILL.

ELIZABETH N. J.



NOV. 5, 1942

Mention the FORTNIGHTLY—It identifies your inquiry



TO KEEP THE BATTLE MACHINES SLUGGING

★ Harvester Men Form Maintenance Battalion to Serve the Battle Line ★

FIGHTING MACHINES, like soldiers, suffer battle casualties. The men who repair the wounded tanks, trucks, tractors, and guns may tip the scale to victory. Maintenance in the wake of battle calls for soldiers who can grind a valve or handle a welding job.

Army Ordnance, in its quest for men to operate its mobile front-line machine shops, asked International Harvester to form a battalion of mechanical specialists from among its employees and dealers. Harvester tackled the recruiting job. In two weeks the enlistment quota was passed. Now this new maintenance bat-

talion is part of another armored division.

These volunteers will serve with the first such battalion formed from the manpower of a single company. They are worthy comrades of the 5,000 Harvester men who preceded them into military service.

American mechanics are the world's best. They are free men—builders of a free land. The Army needs 100,000 more of these men, to be enlisted in many similar maintenance units. Their skills are among our greatest assets in keeping the battle machines slugging for Victory.

INTERNATIONAL HARVESTER COMPANY

180 North Michigan Avenue

Chicago, Illinois

INTERNATIONAL HARVESTER

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Manufacturers' Notes (Cont'd)

principal industrial manufacturing and supply centers of the United States. Nearly 1200 miles of new road has been cut through the forests to Fort Nelson, White Horse, in the Yukon territory, and then to Fairbanks. The highway totals 1600 miles in length.

Gas Industry Urged to Prepare for Post-War Competition

A warning to gas appliance manufacturers to be prepared to meet post-war competition of an entirely new and unique character was sounded recently by John A. Robertshaw, following his reelection as chairman of the Manufacturers' Section of the American Gas Association.

The wartime development of plastics, glass, and new metals introduces new basic materials which, Mr. Robertshaw said, show every promise of being adaptable to gas appliance manufacture. These materials offer opportunity for new design in stoves, water heaters, and cooking appliances of all kinds which can be so revolutionary in character as to make much of the present type appliances obsolete both as to construction and performance. Although gas appliance plants are now almost wholly converted to war work there is vital necessity for the industry to continue research work and be alert to the far reaching changes which are bound to be a post-war development.

Mr. Robertshaw is president of the Robertshaw Thermostat Company, Youngwood, Pa., which has just been awarded the Army-Navy E for high achievement in production of war

equipment. The Robertshaw plant, 95 per cent converted to manufacture of precision parts for munitions, illustrates how far the manufacture of gas appliances has been immobilized because of war work.

G-E Appointment

J. O. Wetherbie has been appointed manager of General Electric wiring materials district No. 2, with headquarters at 570 Lexington Ave., New York, N. Y.

This assignment is in addition to Mr. Wetherbie's present responsibility as special representative coordinating the activities of General Electric's appliance and merchandise department and other departments of the company on large governmental, commercial, industrial and residential construction projects.

Westinghouse Division Changes Name

The "merchandising" division of the Westinghouse Electric and Mfg. Company has been renamed the "Electric Appliance" division, according to an announcement by J. H. Ashbaugh, manager.

The change has been made because the new name better indicates the manufacturing facilities at both the Mansfield, Ohio, and Springfield, Mass., plants. Producing only for war now, the new name quickly suggests the type of manufacturing facilities available. When the war is over and peacetime production is resumed, the newly adopted name will again more specifically suggest this division's business—that of building electrical appliances to meet future needs.

SPRAGUE COMBINATION METER-REGULATOR



LATEST ACHIEVEMENT
IN

GAS MEASUREMENT AND
CONTROL

**For Manufactured,
Natural and Butane Service**

Write for bulletin.

THE SPRAGUE METER CO.
Bridgeport, Conn.



THERE'S good advice in that prescription. Buy quality merchandise and take good care of it to prevent needless waste.

Your long-lived, dependable Exide Batteries, for example, will last even longer—regardless of the service in which they are used—if given reasonable, normal care. Follow the few simple rules given here and *Save to Win*. That's good medicine for you, and bad medicine for the Axis.

HERE'S WHAT TO DO

1. Keep adding approved water at regular intervals. Probably your local water is safe. Ask us if in doubt.
2. Keep top of battery and battery container clean and dry.
3. Keep battery fully charged but avoid overcharge.
4. Keep a written record of water additions, voltage and gravity.

If you have a special battery problem, write us. Ask for Bulletin 3225.

Exide

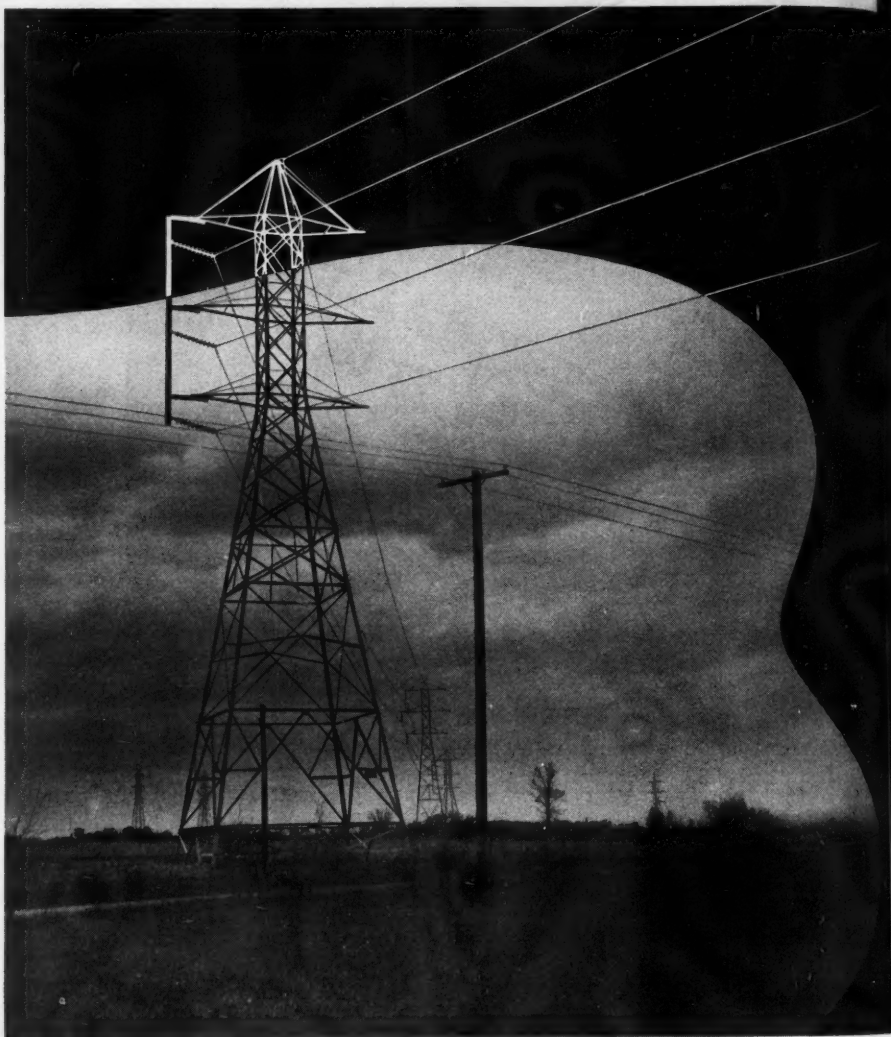
BATTERIES

THE ELECTRIC STORAGE BATTERY CO., Philadelphia

*The World's Largest Manufacturers of Storage Batteries
for Every Purpose*

Exide Batteries of Canada, Limited, Toronto

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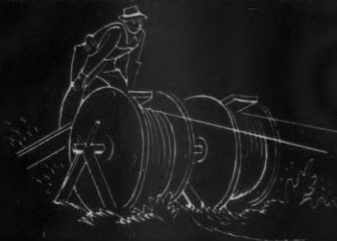


Conductors on both hi-lines and rural lines are A. C. S. R.



A·C·S·R

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THEY'RE ALL IMPORTANT THESE DAYS

Hi-lines supplying industry and rural lines carrying power to the farm front—there must be no stoppage in the flow of electricity which would cut off production of foodstuffs and supplies for our fighting forces.

The Government recognizes the vital part the power companies are playing in the country's war effort. Ruling P-46 permits you to obtain materials required for proper maintenance of power lines. No need to resort to makeshift devices.

You probably aren't seeing much today of the Alcoa engineers who called to tell you the virtues of A.C.S.R. They're very much on the job, however, expediting delivery of Aluminum Alloy products to war production plants. But they're available whenever you need their help in keeping hard-working power lines in service.

Consult with ALUMINUM COMPANY OF AMERICA, 2134 Gulf Building, Pittsburgh, Pennsylvania.

Aluminum Cable Steel Reinforced

ON RURAL POWER LINES AND HI-LINES

ON WAR EMERGENCY PIPELINE CONSTRUCTION—
WHERE SPEED and UNFAILING PERFORMANCE
ARE DEMANDED "CLEVELANDS"
ARE INDICATED—



Compact—fast—flexible—and mobile "Clevelands" are easy to operate—rugged—and amply powered for the toughest tasks, they are delivering maximum trench footage day in and day out, on ditching jobs in all types of soil and reducing to a minimum service interruptions on a multitude of war and civilian emergency projects.



THE CLEVELAND TRENCHER COMPANY

20100 ST. CLAIR AVE.

"Pioneer of the Small Trencher"


CLEVELAND, OHIO



"CLEVELANDS" Save More... Because they Do More



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NEAR EVERY PUBLIC UTILITY AN IBM SERVICE BUREAU

trained and equipped to help in this emergency

FIRST to be enrolled in the Nation's service, utilities are taking on bigger and bigger tasks that are vital to our national effort . . . Fact-finding jobs inevitably grow out of emergencies. These peak analytical jobs need not be assigned to staffs already heavily burdened with regular work . . . IBM Service Bureaus in all principal cities are trained and equipped to help utilities with overflow accounting, research and fact-finding work . . .

FOR SERVICE CALL NEARBY IBM SERVICE BUREAU

Rate Analysis
Market Research
Physical Inventory
Personnel Studies
Material Analysis
. . . and other studies

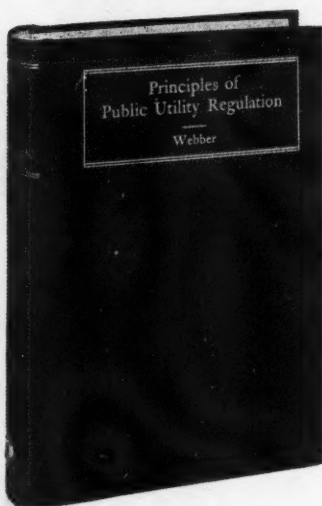
INTERNATIONAL BUSINESS MACHINES CORPORATION

Offices in



Principal Cities

PRINCIPLES of PUBLIC UTILITY REGULATION



831 PAGES

BLUE CLOTH BINDING

\$6.50

Order Today From

by

A. C. WEBBER*Former Chairman and Commissioner
Massachusetts Public Utilities Commission*

It is a rare privilege to find, in readable form, the frank confessions of a commissioner whose aim has been so to coordinate the public administration of the regulatory law with the private conduct of the utility business as to encourage confidence and good will in the domain of both the investor and consumer.

Broadly viewed, this volume blazes new trails. It goes far in justifying the hopes of the pioneers of regulation that the experience of years, tested in the laboratories of the 48 states, might evolve a workable regulatory regime. It encourages the thought that the initiative, the inventive genius, and the capacity of our people working in harmony are the motivating forces of national progress. It sounds a note of political philosophy not uncommon in the field of administration, but rarely found in print.

"Principles of Public Utility Regulation" should be read, not only by commissioners and members of administrative agencies, but by students of government and economics, legislators, investors, bankers, utility men, engineers, accountants, attorneys and all others having an interest in the various concepts of public service.

PUBLIC UTILITIES REPORTS, INC.

Munsey Building • Washington, D. C.



Accurate, Dependable MEASUREMENT

For the duration and for years to come . . .

THE continued manufacture of water meters, made to conform to the limitation order on the use of bronze, has the full approval of the War Production Board. Meters avoid waste of the water that they measure. They also conserve many times the small amount of critical materials used in their construction by reducing the need for additional pipelines, pumping equipment, purification and reservoir facilities. Under the circumstances, no water works man should feel that he is hindering the war effort by buying today the new meters that are actually needed in his operations.

The Pittsburgh-National organization pioneered in meter designs

approved by the War Production Board. We are in full production on both Pittsburgh Ironside and Empire Victory Meters. The Ironside is of the disc type with the same inner working mechanism that has been proven in thousands of Arctic and Tropic Meters. The Empire Victory Meter employs the time tested oscillating piston principle of measurement, developed by National and popularized for over 50 years. Both meters are thoroughly accurate measuring instruments, designed to give many years of dependable service. Together they provide the necessary types to handle practically every domestic water meter requirement or preference of operating men.



THE NEW MOLDED GLASS REGISTER BOX

A single piece, strong, molded glass unit which fits snugly over the register and is retained against a fibre gasket. Serves as both register box and lid; protects register against dust and moisture; will withstand considerable abuse.

PITTSBURGH-NATIONAL METERS

THE MOST COMPLETE LINE OF WATER METERS IN THE WORLD

PITTSBURGH EQUITABLE METER COMPANY

NEW YORK OAKLAND MERCER NORDSTROM VALVE COMPANY KANSAS CITY SEATTLE
BROOKLYN ALBANY Main Office: Pittsburgh, Pa. PHILADELPHIA HOUSTON
DETROIT CHICAGO SAN FRANCISCO COLUMBIA
MINNEAPOLIS BOSTON NATIONAL METER DIVISION, Brooklyn, N. Y. LOS ANGELES BUFFALO



ELECTRICAL CONDUCTORS

are the Nerves of
Planes...Ships...
Tanks...



AND CRESCENT INSULATED WIRE & CABLE CO.

is doing its part in furnishing a vast quantity of electrical wires and cables that carry the power from battery or generator to delicate parts that control these instruments of destruction. Telephones, radios, lights, signals, starters and instrument control are all dependent on electrical conductors that *must not fail*.

CRESCENT has had over fifty years' experience in the manufacture of ALL types of Electrical Wire and Cables.

100% War Production

CRESCENT INSULATED WIRE & CABLE CO.


TRENTON, N. J.

Facts You Can Use to Cut Distribution Costs

**TRANSITE DUCTS
RESIST
CORROSION!**

MAINTENANCE costs *stay* low when Transite Ducts are used. Entirely inorganic and non-metallic, these asbestos-cement ducts are highly resistant to corrosion. They can't rust or rot... won't burn.

Yet low maintenance is only part of the savings made by using Transite Ducts. Supplied in long, light lengths, these durable cableways are installed quickly and easily; thus, installation costs are kept low. For details, write for brochure DS-410. Johns-Manville, 22 E. 40th St., N. Y.



VERY CORROSION-RESISTANT, rustproof, fireproof, Johns-Manville Transite Ducts provide maximum assurance of long, useful life and low maintenance when installed on exposed locations. On many installations, such as the one shown, Transite Conduit outperforms more expensive materials commonly used for this purpose.



UNUSUALLY WEATHER-RESISTANT, these asbestos-cement ducts may be safely stored outdoors. Their sustained strength permits piling to convenient heights without distorting or crushing the duct.



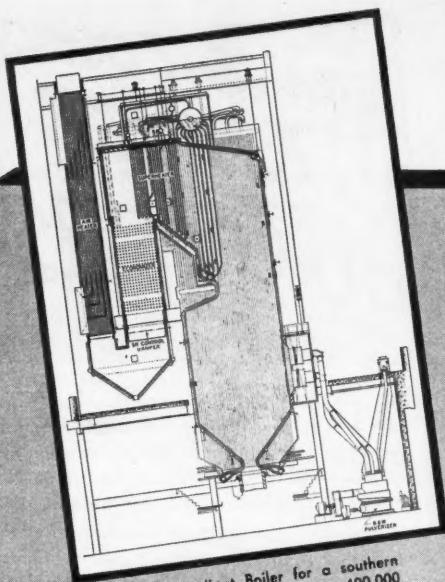
UNIFORMLY STRONG AND DURABLE, J-M Transite Conduit needs no protective casing underground. And its tough asbestos-cement composition offers superior protection against corrosive soils.

**FOR
EFFICIENT,
LOW-COST
SERVICE,
SPECIFY...**

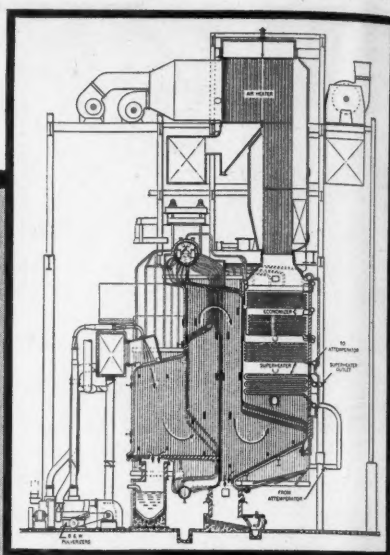
JM Johns-Manville **TRANSITE DUCTS**

TRANSITE CONDUIT... For use underground without a concrete envelope and for exposed locations.

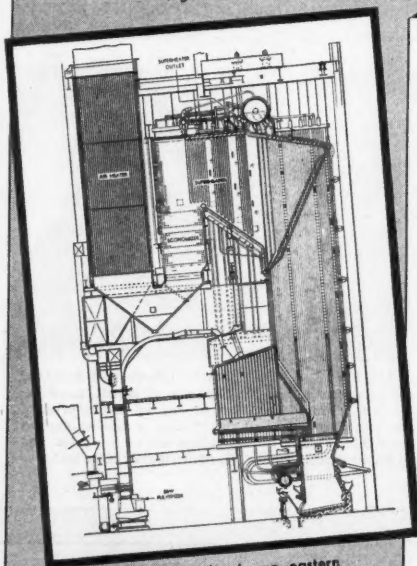
TRANSITE KORDUCT... For installation in concrete. Thinner walled, lower priced, but otherwise identical with Transite Conduit.



B&W Radiant Boiler for a southern central station—Capacity 400,000 lb. steam per hr.—Direct fired with high-volatile southern bituminous coal.



B&W Open-Pass Boiler in an eastern central station—Capacity 350,000 lb. steam per hr.—Direct fired with high-volatile eastern bituminous coal.

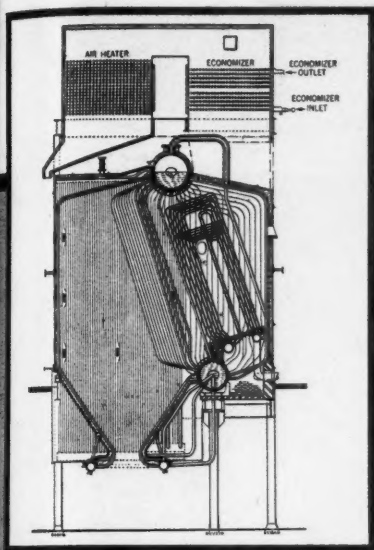


B&W Radiant Boiler in an eastern central station—Capacity 900,000 lb. steam per hr.—Direct fired with high-volatile eastern bituminous coal.

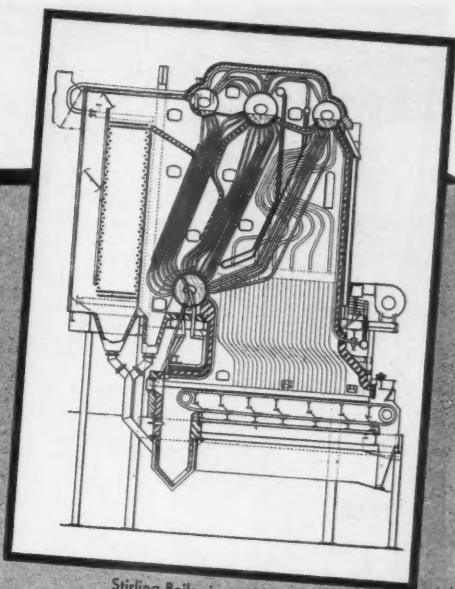
COAL MEETS THE Pulverized and

Steam plants today must be operated in the interest of the war effort, releasing from use the fuels needed by combat units. This has placed on coal the burden of carrying today's production load. With coal, as with other fuels, it is vital that it be burned economically and with minimum interruption to service. In the field of coal burning, B&W can be of great service to coal users, because of its invaluable knowledge and experience in the combustion of this and other fuels and through the coal-burning equipment it has made available.

The B&W Direct-Firing System is the result of the Company's lengthy experience with pulverized-coal firing, an experience that dates back to the earliest applications to power boilers. This system is fully coordinated, from bin to burners; the ball-bearing type pulverizer and rotating-table feeder being



B&W Integral-Furnace Boiler for an eastern central station—Capacity 150,000 lb. steam per hr.—Direct fired with high-volatile Kentucky bituminous coal.



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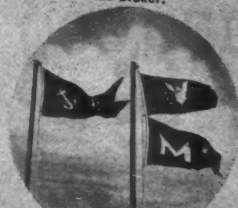
especially applicable to direct firing and to complete automatic control.

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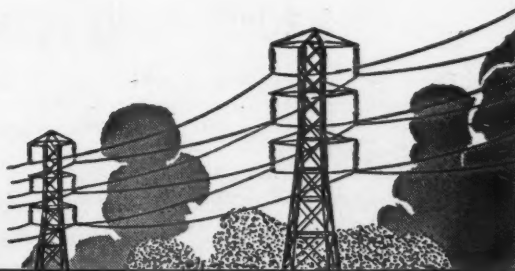
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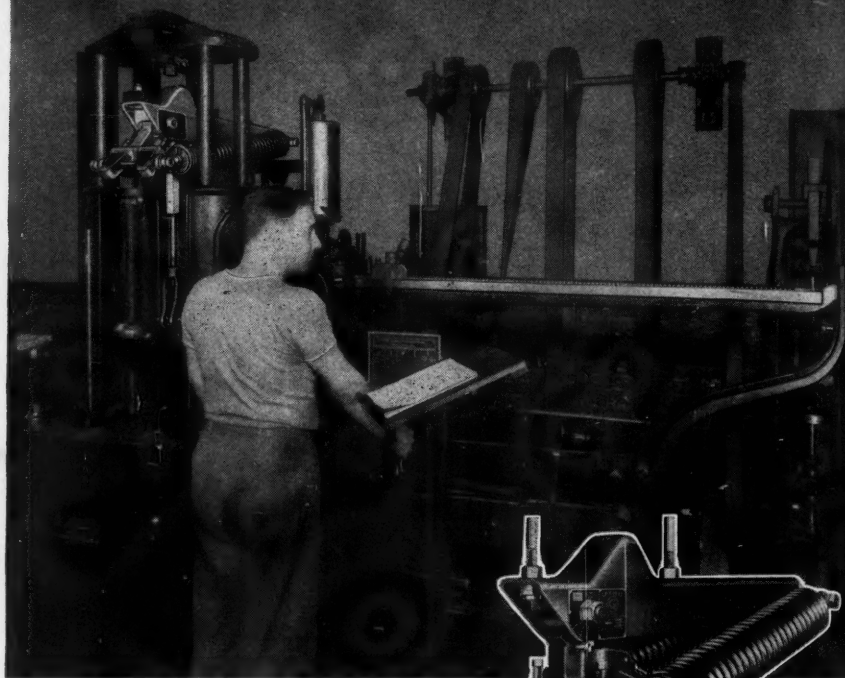
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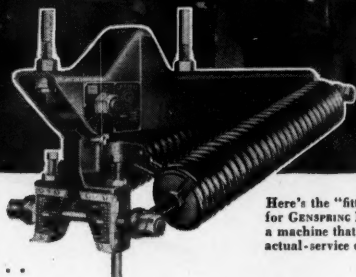
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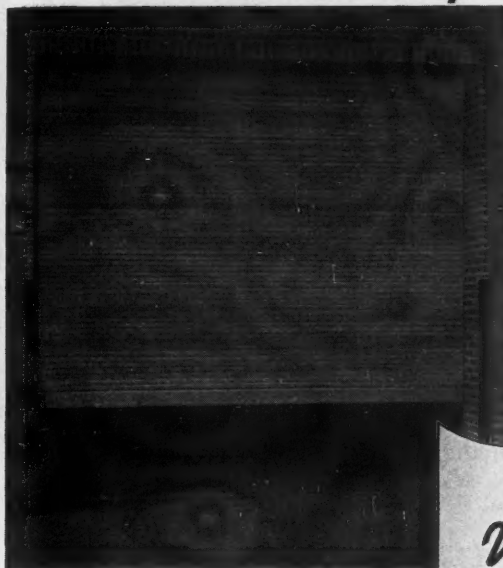
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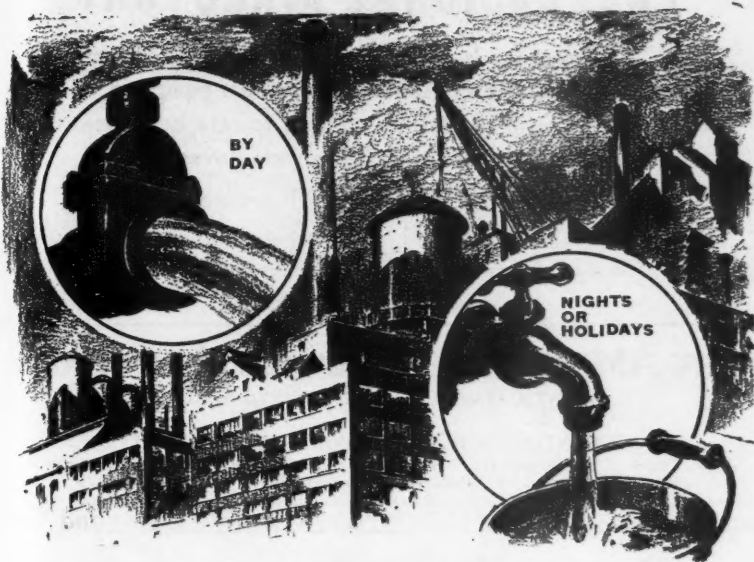
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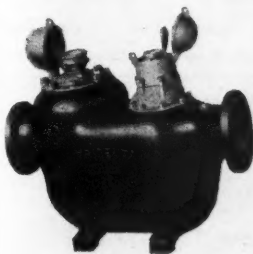
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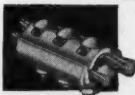
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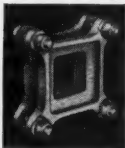
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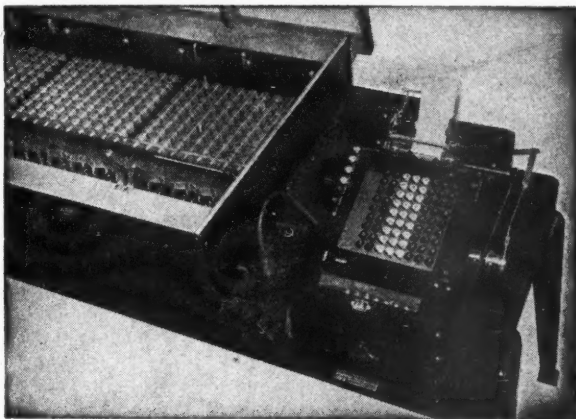
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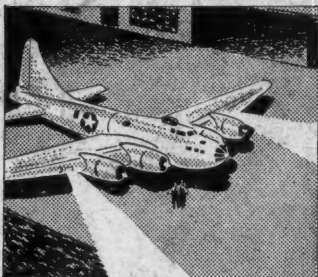
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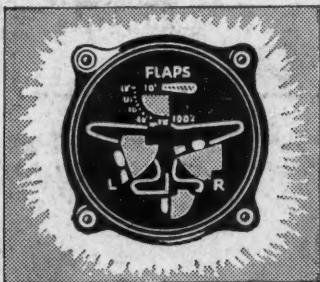
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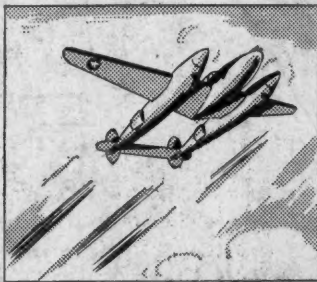
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